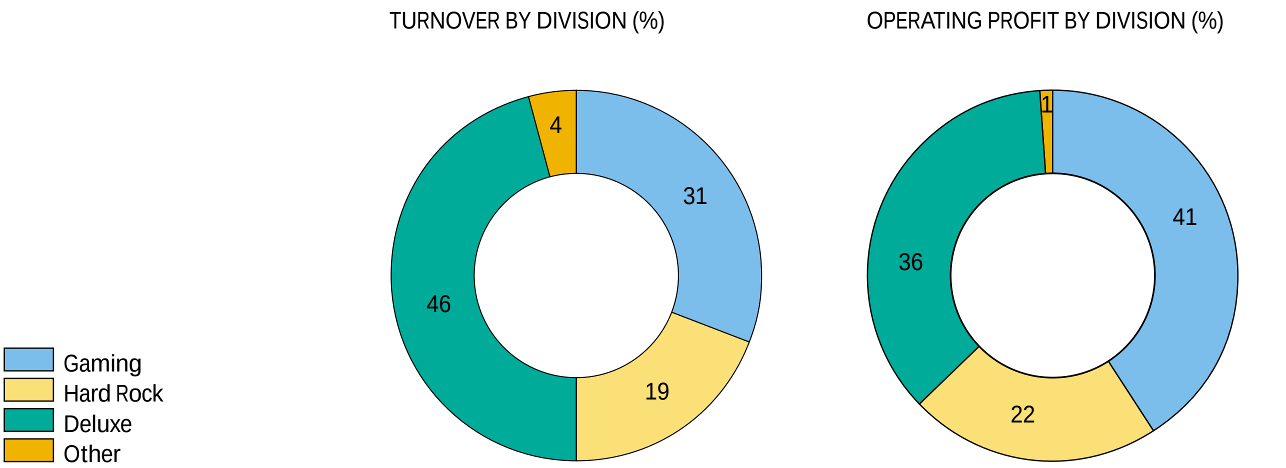
# THE RANK GROUP PLC

ANNUAL REPORT AND ACCOUNTS 2000

## CONTENTS

2000 WAS A YEAR OF FUNDAMENTAL CHANGE FOR THE GROUP. WE ACHIEVED OUR DECLARED FINANCIAL TARGETS, IMPROVED THE FINANCIAL PROFILE OF THE GROUP, REINVIGORATED OUR TRADING PERFORMANCE AND STRENGTHENED OUR BALANCE SHEET. WE NOW HAVE THE FINANCIAL AND MANAGERIAL CAPACITY TO DEVELOP MORE AGGRESSIVELY AND REMAIN CONFIDENT THAT OUR APPROACH WILL ADD SIGNIFICANTLY TO SHAREHOLDER VALUE.

# THE RANK GROUP PLC




OPERATING PROFIT* ON CONTINUING OPERATIONS UP 7%

RECORD YEAR FOR GAMING, WITH PROFIT* UP 29%

RETURN TO GROWTH FOR HARD ROCK, WITH PROFIT* UP 13%

STRONG RESULT IN DELUXE FILM, OFFSET BY DECLINE IN VIDEO

NET CASH FLOW BEFORE ACQUISITIONS AND DISPOSALS OF £57.9m – FIRST YEAR OF NET CASH GENERATION SINCE 1994

SALE OF UK HOLIDAYS DIVISION BRINGS DISPOSAL PROCEEDS TO OVER £1.4bn IN LAST 18 MONTHS

NET DEBT REDUCED BY OVER £1bn FROM ITS PEAK AND £300m RETURNED TO SHAREHOLDERS

*Stated before exceptional items and FRS 15

## A MORE COMPACT AND COHESIVE RANK IS NOW POISED TO MOVE FORWARD, DRIVEN BY THE COMPETENT YOUTHFUL EXECUTIVE TEAM UNDER MIKE SMITH'S DETERMINED LEADERSHIP

As I said last year, the momentum of change which was established just over twelve months ago accelerated sharply in 2000. Important examples were the termination of our long-term association with the Universal Studios theme park in Orlando and the divestment of the UK Holidays business. Both were seminal events which have taken the Rank Group significantly further down the road to focus on fewer businesses which are powerful, with strong market positions and positive cash flow. This will ensure that we can maintain a sound, well-funded asset base, from which we will be able to grasp prudent expansion opportunities in the years ahead.

A more compact and cohesive Rank is therefore now poised to move forward, driven by the competent youthful executive team under Mike Smith's determined leadership. As the way ahead is now much clearer than when I became Chairman some six years ago, I have decided that it is now opportune for me to step down. I shall therefore not seek re-election at the AGM. My successor will be Alun Cathcart who will join the Board on 1 May 2001. His vast experience, mainly with AVIS Europe but also latterly with Selfridges, plus his intimate knowledge of the consumer and financial markets, will be of great value to Rank in the years ahead.

Christine Morin-Postel and Hugh Jenkins have similarly decided not to seek re-election, while Jerry Fowden will resign after the AGM. To all of these, as also to my other Board colleagues, I offer my warmest thanks for their loyal support through a challenging period.

It is always difficult and painful to recast a long-established company like Rank, with its venerable antecedents and loyal employees. But the leisure and gaming markets are changing dramatically and we have had to take firm action to ensure that we are not left behind. This has meant extensively modernising the asset base of those businesses on which we intend to focus, reducing their costs sharply and ensuring that we have adequate financial resources, with an alert management team keen to grasp the opportunities which will surely lie ahead.

Throughout the turbulence of the last few years, Rank employees have behaved in an exemplary fashion and I extend my grateful thanks to them and to all my colleagues, both past and present, for their unfailing support.

I wish Alun every success as he succeeds me as Chairman – in many ways I would have liked to have seen the re-rating of "new Rank" which will reflect the changes which have been put in place – but, to quote from Virgil's Aeneid – "Alas, the fleeting years are slipping by!".

Good luck to you all – colleagues and shareholders alike. My time with you has been extraordinarily stimulating.

Sir Denys Henderson
CHAIRMAN

WE HAVE COME A LONG WAY IN BRINGING MORE FOCUS TO OUR ACTIVITIES AND ESTABLISHING A CORE FOR "NEW RANK". THE DEVELOPMENT OF "NEW RANK" WILL CENTRE ON OUR GAMING AND HARD ROCK CAFE ACTIVITIES.

2000 was a year of fundamental change for The Rank Group. Twelve months ago, we were a sprawling conglomerate with too many competing claims on our financial resources and management expertise. We have come a long way in bringing more focus to our activities and establishing a core for "new Rank" whilst also improving our results.

The improvement in results is already being delivered. We achieved our declared financial targets and improved the financial profile of the Group. We have reinvigorated our trading performance and strengthened our balance sheet. In the past 18 months we have sold businesses for a value above £1.4 billion. We have used these funds to reduce debt by some £1 billion from its peak and to return £300 million of capital to shareholders via share purchases which have totalled 23.5% of the Group's equity. Equally important, we had a positive cash flow before acquisitions and disposals in 2000 for the first time in many years. In 2001 we will repeat this with all three major businesses – Gaming, Hard Rock and Deluxe – being cash positive after funding their respective capital expenditures and their share of financing costs.

The Gaming division had a record trading year within both its casino and bingo activities. In 2001and beyond we will continue with our proven formula of relocation combined with new developments and acquisitions. The acquisition of the London Park Tower casino has been successful and the business is performing well. We have announced plans for a Hard Rock casino in Manchester (adjacent to the new cafe which opened in November), which, subject to regulatory approval, will open in 2001. Casino websites will also be launched in 2001 using our current Grosvenor brands and introducing one featuring the Hard Rock brand.

Hard Rock improved sales trends and recorded a stronger financial performance in 2000. We trialled several new marketing approaches and cafe reconfigurations both to refresh the offering to customers and to tailor to local conditions. The favourable outcome of our trials and the fact that we have achieved positive like for like sales in European markets in 2000 means that we can accelerate development in the UK and continental Europe.

The strength of the Hard Rock brand and its ability to endorse activities outside of its restaurant business was proved again in 2000. Receipts for royalties and licence fees matched our all time high. Significant new franchise agreements for cafes, hotels and, for the first time, casinos were all agreed during the year. The Hard Rock hotel in Orlando, adjacent to the Universal Studios Escape theme park, opened in January 2001. We also substantially improved the Hard Rock website in 2000 and its added sophistication enabled us to negotiate commercial arrangements that further our links to music. We are confident that more Hard Rock branded developments will be consummated in 2001.

Deluxe had a mixed trading pattern in 2000, with a strong result in film processing offset by a decline in video duplication which required a substantial restructuring. In film, developments centred on building the film laboratory in Rome and planning for a replacement film laboratory in Toronto to open in 2002. Both will add to the technical proficiency, operating efficiency and capacity of our film processing business where we are still number one in the world. In video, our North American business is now centred on our low cost Arkansas plant and limited rationalisation of our facilities will take place in Europe in 2001 to further reduce cost and improve efficiency. In 2000 we also acquired a DVD facility in California.

The changes wrought in the past 18 months have not been without disruption or cost but we can now look forward at what we are building and not back at problems that needed solving. I have said previously that we are regaining our confidence at Rank and to this we can add the enthusiasm engendered by our improved financial results, proven development initiatives and stronger balance sheet. We now have the financial and managerial capacity to develop our increasingly focused activities more aggressively.

There is no great financial pressure to sell more businesses but we will continue to appraise the prospect for recycling capital within our portfolio. Our intention anyway is to allocate more of our self generated resources towards Gaming and Hard Rock to drive higher growth in these businesses in support of "new Rank". We are confident that this approach will drive further improvement in our financial results and add significantly to shareholder value.

Mike Smith
CHIEF EXECUTIVE

## GAMING

**TURNOVER**
**£443m**
**OPERATING PROFIT**
**£82m**

**OPERATIONS**
**MECCA BINGO**
124 clubs in the UK and 6 in Spain.

**GROSVENOR CASINOS**
5 in London, 27 UK provincial and 2 in Belgium.

**RANK LEISURE MACHINE SERVICES**
38,000 amusement machines in UK leisure venues.

**MANAGING DIRECTOR**
David Boden

**ADDRESS**
Stafferton Way
Maidenhead
Berks SL6 1AY
Tel 01628 504000
Fax 01628 504369
www.grosvenor-casinos.co.uk
www.uk-club-network.co.uk
www.mecca-bingo.co.uk

## HARD ROCK

**TURNOVER**
**£260m**
**OPERATING PROFIT**
**£46m**

**OPERATIONS**
**HARD ROCK CAFES**
55 owned – 1 new in 2000.
49 franchised – 6 new in 2000.

**HARD ROCK HOTELS**
Bali
Orlando (opened January 2001)
Thailand (opening 2001)
Hollywood and Tampa, Florida (due to open 2002)

**HARD ROCK LIVE**
Concert arenas in Orlando, Mexico City, Bali and Guadalajara. Flagship Orlando venue continues to host top-name national and international artists and has been the site for numerous television specials seen in more than 30 million homes.

**MERCHANDISE**
Variety of branded merchandise available at all cafes and via the website.

**MANAGING DIRECTOR**
Pete Beaudrault

**ADDRESS**
6100 Old Park Lane
Orlando
Florida 32835
USA
Tel 001 407 445 7625
Fax 001 407 445 9709
www.hardrock.com

## DELUXE

### TURNOVER
**£651m**
### OPERATING PROFIT
**£73m**

### OPERATIONS
**DELUXE LABORATORIES**
3 laboratories in UK, US and Canada processed 3.6bn feet of film (Rome laboratory to open 2001).

**DELUXE VIDEO SERVICES**
Duplicated 300m video cassettes in US, UK, Germany, Spain, France, Portugal, Italy, Sweden and the Netherlands.

**DELUXE DVD**
3.3m DVDs replicated in US.

### MANAGING DIRECTOR
Phil Clement

### ADDRESS
1041 E 230th Street
Carson, CA 90745
USA
Tel 001 310 518 0710
Fax 001 310 522 7306
www.bydeluxe.com

Deluxe Laboratories, Inc. Deluxe Video Services Limited

## OTHER

### US HOLIDAYS
Resorts USA comprises timeshare operations, real estate and campgrounds.

### UNIVERSAL STUDIOS – HOTELS
Rank has a 25% stake in Portofino Bay Hotel, Hard Rock Hotel and Royal Pacific Resort Hotel.

### UNIVERSAL STUDIOS, JAPAN
Rank has a 10% stake. Opens 2001.

### BRITISH LAND JOINT VENTURE
Joint venture with The British Land Company PLC. The principal activity of the joint venture is property investment.

## DISCONTINUED

### NIGHTSCENE
53 sites sold for £150m in November 1999 (formerly part of Entertainment in the Leisure division).

### ODEON CINEMAS
75 cinemas sold for £280m in February 2000 (formerly part of Entertainment in the Leisure division).

### PINEWOOD STUDIOS
Sold for £62m in February 2000 (formerly part of Deluxe division).

### UNIVERSAL STUDIOS ESCAPE (ASSOCIATE)
Universal Studios Florida, Islands of Adventure and CityWalk. Sold for £182m in July 2000.

### TOM COBLEIGH
87 managed pubs and 23 tenancies sold for £90m in September 2000.

### UK HOLIDAYS
3 Butlins resorts, 57 Haven UK caravan parks, 8 owned and 39 franchised Haven Europe caravan parks, 13 Warner hotels and Oasis. Sold for up to £700m in October 2000.

# GAMING

**TURNOVER £443m**
**OPERATING PROFIT £82m**

**Grosvenor Casinos**
Grosvenor is the UK's largest casino operator, with 32 clubs. It also has two clubs in Belgium. Grosvenor continued to enhance its estate last year by refurbishing Swansea, Reading and the Connoisseur in London in the stylish and modern design which has proved very popular with its customers. Following the success of the Newcastle and Southampton casinos, in 2001 further casinos will be relocated to high profile locations in Birmingham, Brighton, Blackpool and Great Yarmouth. Also, in association with Hard Rock, there are plans to open a new casino in Manchester as a "Hard Rock Casino". Hi-tech gaming is being trialled in two casinos in the form of "Touchbet" which allows customers to play roulette on a computer screen. Grosvenor is also actively developing a range of internet casino products which are expected to be launched in 2001.

**Mecca Bingo**
Mecca is one of the two leading bingo operators in the UK and also has 6 clubs in Spain. Over the last few years, Mecca has continually innovated to provide a broader range of products and services to its huge customer base. A total prize of £219,704 was given out at Mecca's biggest ever game of bingo in November 2000. It was the result of the successful launch in May of a regular multiple bingo game which allows players from Mecca Bingo clubs around the country to take part in one large game with even larger prizes. Mecca is continually aware of the need to provide a comfortable and enjoyable environment for its customers and undertook a major refurbishment at seven of its clubs in 2000.

**Rank Leisure Machine Services**
Rank Leisure Machine Services had a successful year increasing operating profit by 57%.

**Gambling Review**
The Government is currently undertaking a Gambling Review and a report is expected in summer 2001. The outcome is very important to Rank's Gaming Division and accordingly a submission has been made to the Review Board. Details of Rank's proposals can be found on a dedicated website – www.gamblingreview.co.uk.

# Making winners every day

# Rocking all over the world

# HARD ROCK

**TURNOVER £260m**
**OPERATING PROFIT £46m**

Hard Rock's greatest asset is the strength and universal recognition of its brand name, which this year will celebrate its 30th anniversary. The world's first Hard Rock Cafe in London opened on 14 June 1971 and plans are in hand to celebrate this event in style across the ever growing worldwide cafe network.

A 'New Generation' style of cafe was launched in 2000 which includes a larger bar area, a stage and a dance floor. Following successful trials in Houston, Chicago and Manchester, the refurbishment and development of further cafes is planned for 2001. Six new franchise cafes opened in 2000 including Rio de Janeiro, Malta and Grand Cayman, and more are planned for 2001.

'Hits' to the new Hard Rock website have grown rapidly and it is an effective marketing outlet for all Hard Rock's activities including cafes, concerts, a new membership loyalty scheme and a variety of music related information and news. It has also provided an opportunity to partner with other music and marketing related websites including MusicChoice, CDNOW and eBay.

The development of Hard Rock Hotels has increased with a hotel in Orlando now open and one in Thailand due to open later this year. In addition, plans are in place for the development of two casino and hotel complexes in Florida.

Hard Rock has become more involved in staging live concerts at its concert arenas and cafes. Plans for 2001 include televising Hard Rock concerts to an expected 30 million households.

color by deluxe

deluxe
DELUXE LABORATORIES, INC.

deluxe
DELUXE VIDEO SERVICES LIMITED

# DELUXE

**TURNOVER £651m**
**OPERATING PROFIT £73m**

**Film processing**
For many years Deluxe has been the world's leading supplier of film processing services to the major producers and distributors of motion pictures. This business has grown rapidly and in 2000 almost 3.6 billion feet of film was processed. Deluxe maintains its leading edge by investing in the modernisation of its laboratories to meet the increasing demand for film footage and to ensure an efficient service for its customers. In the next two years, Deluxe will open two state-of-the-art laboratories in Rome and Toronto. The Rome laboratory will open in early 2001 and will increase Deluxe's european capacity by 75%. The new Toronto laboratory will replace the existing facility and will increase North American capacity by some 20%. Not surprisingly, such facilities are attractive to film producers and Deluxe secured another significant new contract in 2000, the international film processing contract for 20th Century Fox.

Many of the popular film titles in 2000 were processed by Deluxe including "Charlie's Angels", "What Women Want", "Castaway" and "Gone in 60 Seconds".

**DVD**
The DVD market has increased rapidly over the last year. Deluxe's DVD replication factory in California has the space to expand as required. Annual capacity is currently 15 million units. Deluxe is also a major distributor of DVDs, having shipped some 56 million units in 2000.

**Video**
Deluxe is a leading worldwide duplicator and distributor of video cassettes, with operations in North America and Europe. In 2000 a major restructuring of Deluxe's North American video duplication and distribution business took place. The business is now consolidated into three sites, in California, Arkansas and near Chicago, which has improved efficiency and reduced costs. In Europe the development of a 'direct to retail' system attracted new customers including a new contract for European duplication with MGM.

# *Creating movie magic*

### Profit before tax and exceptional items

| | Turnover 2000 £m | Turnover 1999 £m | Profit before tax 2000 £m | Profit before tax 1999 £m |
|---|---|---|---|---|
| Gaming | **442.6** | 405.9 | **82.4** | 69.1 |
| Hard Rock | **260.2** | 239.9 | **46.3** | 41.5 |
| Deluxe | **651.1** | 636.8 | **73.3** | 84.4 |
| US Holidays | **50.2** | 47.4 | **10.0** | 8.5 |
| Central costs and other income | **–** | – | **(8.9)** | (7.5) |
| Continuing operations | **1,404.1** | 1,330.0 | **203.1** | 196.0 |
| Discontinued operations* | **389.3** | 711.4 | **59.7** | 111.0 |
| | **1,793.4** | 2,041.4 | **262.8** | 307.0 |
| Net loss from associates and joint ventures | | | **(9.4)** | (0.1) |
| Managed businesses' interest | | | **(67.4)** | (79.2) |
| **Profit before tax and exceptional items** | | | **186.0** | 227.7 |
| Exceptional items | | | **(527.1)** | (120.1) |
| **Profit (loss) before tax** | | | **(341.1)** | 107.6 |
| **Earnings per share** | | | **17.3p** | 19.9p |

*Discontinued operations include the results for Nightscene, Odeon Cinemas, Pinewood Studios, Tom Cobleigh and UK Holidays.

### Basis of reporting
The Group's results for 2000 have been prepared using the same accounting policies as last year with the exception of the implementation of Financial Reporting Standard ("FRS") 15 "Tangible Fixed Assets". The effect of FRS 15 is to reduce 2000 profit before tax and exceptional items by £16.7m comprising Gaming £6.9m (Mecca Bingo £5.8m, Grosvenor Casinos £1.1m), Hard Rock £0.4m and discontinued operations £9.4m.

### Summary of results
Turnover from continuing operations was 6% ahead of 1999. All divisions reported increases in turnover, although both Deluxe and Hard Rock benefited from favourable movements in exchange rates. Excluding the impact of exchange rate movements, turnover was up 2%.

Operating profit from continuing operations, before exceptional items and FRS 15, was 7% ahead of 1999. Gaming and Hard Rock results were very strong, together representing 23% growth on 1999 before FRS 15. In Deluxe, further progress in film was more than offset by reduced profit in video, leaving overall results behind 1999.

Operating profit from discontinued operations was £59.7m (1999 – £111.0m), of which UK Holidays contributed £51.8m. An indication of the scale of the Group's disposal programme is evident from the fact that discontinued operations represent 35% of 1999 turnover and 36% of operating profit.

Profit before tax and exceptional items was £186.0m (1999 – £227.7m). The growth in continuing operations was more than offset by the impact of the substantial reshaping of the Group during the past year, the FRS 15 charge of £16.7m and a loss of £11.5m from Universal Studios Escape prior to its disposal in July (1999 – net loss of £2.2m).

Earnings per share before exceptional items, based on average shares of 695.6m compared to a year end figure of 591.8m, was 17.3p (1999 – 19.9p).

The Group incurred a net exceptional charge after tax of £461.4m in 2000, due largely to the net loss arising from the significant disposal activity during the year. An analysis of the exceptional charge is set out on page 15.

## Divisions

All references to operating profit are before exceptional items.

### Gaming

| | Turnover | | Operating profit | |
|---|---|---|---|---|
| | **2000 £m** | 1999 £m | **2000 £m** | 1999 £m |
| Mecca Bingo | **232.5** | 229.8 | **58.5** | 50.2 |
| Grosvenor Casinos | **157.6** | 122.5 | **21.7** | 17.5 |
| Rank Leisure Machine Services | **52.5** | 53.6 | **2.2** | 1.4 |
| | **442.6** | 405.9 | **82.4** | 69.1 |

The Gaming Division had an excellent year with operating profit up 19% and 29% before a FRS 15 charge of £6.9m.

Mecca Bingo increased operating profit by 28% before FRS 15. Turnover was up 1% with continued growth in spend per head (up 8%) more than offsetting the decline in admissions. Continued focus on product mix and cost control resulted in an operating profit margin of 25% (1999 – 22%). The Spanish bingo clubs performed well with profit up 23% to £3.6m.

Grosvenor Casinos turnover was up 29% and operating profit was up 30% before FRS 15. The increase in turnover reflects generally strong trading across the estate and, in particular, exceptionally strong business in the first half of the year at the Clermont. The effect of this business has not fully translated into operating profit as a significant part of the win has still not been received in cash and has been provided for. Actions are in hand to recover the amounts due. The Park Tower, acquired in May for £14.0m, contributed £1.7m in the eight months following its acquisition. The Group's other London casinos performed well with admissions up 1.7% and handle per head up 7.4%. Outside London, admissions were up 4.7% and handle per head was up 7.1%. Following the success in relocating the casinos in Newcastle and Southampton, licences have been granted for further relocations in Blackpool, Birmingham, Brighton and Great Yarmouth. Plans have been announced for a Hard Rock branded casino in Manchester (adjacent to the recently opened Hard Rock cafe), and we are actively seeking additional sites for Hard Rock themed casinos in the UK. A range of internet casino products will be launched during 2001, using both the Grosvenor and Hard Rock brands.

Rank Leisure Machine Services increased operating profit by 57% to £2.2m.

### Hard Rock

| | Turnover* | | Operating profit* | |
|---|---|---|---|---|
| | **2000 £m** | 1999 £m | **2000 £m** | 1999 £m |
| Owned cafes | **248.6** | 230.1 | **54.3** | 51.6 |
| Franchise and other income | **11.6** | 9.8 | **12.4** | 12.5 |
| Advertising | **–** | – | **(5.0)** | (1.9) |
| Overheads | **–** | – | **(15.4)** | (20.7) |
| | **260.2** | 239.9 | **46.3** | 41.5 |

*Results for 2000 are for 53 weeks (1999 – 52 weeks).

Hard Rock turnover was 8% ahead of 1999 with operating profit 13% ahead before FRS 15. Like for like revenues within owned cafes were 3.5% down on 1999 (on a comparable 52 week trading period), a significant improvement on the trend experienced in recent years. Further improvement has been experienced in the early part of 2001, with like for like revenues up 0.2% for the first seven weeks. Improved margins throughout the estate, the contribution from new openings and the effect of the additional trading week, offset the like for like revenue decline to leave owned cafe operating profit 5% ahead of 1999. Franchise and other income was £12.4m, including a £1.3m up front fee from the Seminole Indian Nation deal (see below). Overheads reduced by £5.3m following the restructuring in the second half of 1999. This reduction was offset by the costs of the expanded advertising campaign undertaken during the year.

A number of actions were taken in 2000 aimed at revitalising the Hard Rock brand and the owned cafe estate. A reconfigured cafe style has been developed which includes a larger bar area and a stage providing for evening entertainment with live bands. Chicago and Houston were both successfully re-launched in this style and further cafes will undergo similar reconfiguration during 2001. In Europe the new Manchester cafe, also in the reconfigured style, opened in November and, following its success, plans are in place to develop new Hard Rock cafes in other major UK centres. Plans are also in hand to accelerate development of new cafes in continental Europe, where like for like revenues were 1.4% up in 2000.

The Hardrock.com website was relaunched and has proved to be very popular. Alliances have been entered into with eBay, Music Choice and CDNOW, all aimed at giving Hard Rock low cost access to a new customer base.

Hard Rock is continuing to explore the use of its brand name within the hospitality sector, in particular in hotels and casinos. An agreement has been signed to develop two Hard Rock casino based resorts on Seminole Indian Nation reservation land in Florida. Investment by Hard Rock is limited to the construction of two cafes within the resorts. The Hard Rock hotel in Orlando opened on 19 January 2001. Further opportunities are being pursued in this area and reinforce our belief that the brand can profitably lend itself to expansion outside of the restaurant operations.

### Deluxe

| | Turnover | | Operating profit | |
|---|---|---|---|---|
| | **2000 £m** | 1999 £m | **2000 £m** | 1999 £m |
| Film processing | **300.2** | 266.0 | **48.6** | 48.0 |
| Video duplication | **350.9** | 370.8 | **24.7** | 36.4 |
| | **651.1** | 636.8 | **73.3** | 84.4 |

Film processing had another successful year. Film footage was up 12% to almost 3.6 billion feet and operating profit was up 9% before a one-off charge of £3.7m relating to the planned relocation of the Toronto laboratory (see below). Films processed during the year included "Erin Brokovich", "Castaway", "Charlie's Angels" and "Gone in 60 Seconds".

The Rome laboratory will open shortly and plans are in place to relocate the Toronto laboratory to new state of the art premises with opening scheduled for early 2002. These new low cost facilities, allied to the enhanced contractual position following the award of the Fox International film contract, leave the business very well positioned for the future. The decision to relocate the Toronto Laboratory has resulted in a write-off of certain leasehold improvements and other assets of £3.7m, which has been charged against operating profit before exceptional items.

Video duplication turnover declined by 5% and operating profit was down to £24.7m. The results were particularly affected by the loss of the Fox Home Entertainment contract in North America in August and a net loss of £4.7m, including the write-off of start up costs, incurred by the DVD facility acquired in February.

A substantial restructuring of the video duplication and distribution business in the USA was completed during the year. Following this restructuring, the business is now operating at substantially lower cost and much improved service levels, with duplication now concentrated in Arkansas and distribution concentrated around Chicago. The costs incurred in effecting these changes and the write-off of assets relating to the ending of the Fox Home Entertainment contract have resulted in an exceptional charge of £41.3m. In Europe, volume and turnover increased, helped by the duplication of "Star Wars: The Phantom Menace" and a large publishing project in Spain. Operating profit was, however, behind last year due to higher material costs and higher depreciation charges following the expenditure on new information systems over the past two years. Plans are currently being formulated to rationalise the duplication business in Europe in order to concentrate volumes within the lower cost facilities.

Deluxe replicated 3.3m DVDs in 2000 (1999 – nil). Excess supply in the market led to lower volumes than had been anticipated and this, together with start up costs, resulted in a net loss of £4.7m from this business. Deluxe distributed 56m DVDs during 2000 (1999 – 30m).

### US Holidays

US Holidays increased operating profit by 18% to £10.0m and generated net cash of £13.6m.

### Central Costs and Other

| | Operating profit | |
|---|---|---|
| | **2000 £m** | 1999 £m |
| Central costs | **(10.6)** | (11.1) |
| Other income | **1.7** | 3.6 |
| | **(8.9)** | (7.5) |

Central costs were down to £10.6m, although this includes certain one-off costs of £1.7m. The true reduction in costs is therefore £2.2m, reflecting the restructuring undertaken in 1999.

### Discontinued operations

| | Turnover | | Operating profit | |
|---|---|---|---|---|
| | **2000 £m** | 1999 £m | **2000 £m** | 1999 £m |
| Nightscene | **–** | 75.4 | **–** | 12.1 |
| Odeon Cinemas | **19.6** | 142.5 | **1.8** | 22.4 |
| Pinewood Studios | **1.4** | 15.3 | **0.1** | 5.3 |
| Tom Cobleigh | **43.1** | 58.8 | **6.0** | 8.1 |
| UK Holidays | **325.2** | 419.4 | **51.8** | 63.1 |
| | **389.3** | 711.4 | **59.7** | 111.0 |

### Associates and joint ventures

Associates and joint ventures principally comprises the Group's interests in Universal Studios Escape and the British Land joint venture. The Group suffered a net loss of £11.5m from Universal Studios Escape in the period to its disposal on 28 July 2000 (1999 – net loss of £2.2m). The Group's interest in the British Land joint venture contributed a net profit of £1.9m in 2000 (1999 – £2.3m).

### Interest

| | **2000 £m** | 1999 £m |
|---|---|---|
| Interest incurred | **67.4** | 95.8 |
| Interest capitalised | **–** | (10.8) |
| Amortisation of discount on Xerox proceeds | **–** | (7.8) |
| Amortisation of capitalised interest | **–** | 2.0 |
| Managed businesses interest | **67.4** | 79.2 |
| Net debt | **319.9** | 1,161.9 |

Net interest incurred was 30% below 1999 as a result of substantially lower debt levels. The average interest rate was 7.5% (1999 – 7.3%). The increase is due to the lower rate of interest received on cash deposits held by the Group following completion of the disposal of the UK Holidays division. The average interest rate on gross debt was 7.3% (1999 – 7.3%). Interest cover, expressed as the ratio of Group operating profit before exceptional items to managed businesses interest, was 3.9 times (1999 – 3.9 times). The fixed charge cover, excluding lease commitments, was 3.0 times (1999 – 3.1 times).

### Exchange rates

The net translation effect of changes in average exchange rates between 1999 and 2000 was to increase turnover by £46.7m and profit before tax and exceptional items by £3.4m. The increase in profit before tax is comprised of an increase of £6.4m in operating profit (Deluxe £4.5m, Hard Rock £1.9m) offset by higher interest payable of £3.0m. The average rates of the principal operating currencies were: US dollar 1.50 (1999 – 1.62); Euro 1.66 (1999 – 1.53) and Canadian dollar 2.21 (1999 – 2.40).

### Taxation

The effective tax rate on Rank managed businesses, excluding exceptional items, is 21.5% (1999 – 22.4%). On a pre-FRS 15 basis the rate is 19.8%. The effective rate continues to benefit from prior year capital allowance disclaimers, US tax losses and reflects a repayment of UK tax relating to previous years.

### Exceptional items

| | **£m** |
|---|---|
| Exceptional items within operating profit | |
| Restructuring charge at Deluxe Video USA | **(41.3)** |
| Group restructuring charge | **(2.2)** |
| | **(43.5)** |
| Exceptional items within Associates | **(13.8)** |
| Non-operating exceptional items | **(449.5)** |
| Exceptional items within interest payable | **(20.3)** |
| | **(527.1)** |
| Tax | **65.7** |
| Exceptional items after tax | **(461.4)** |

In April 2000, the Group announced plans to restructure the Deluxe video business in the USA. This resulted in an exceptional charge of £41.3m, comprising redundancy costs of £4.7m, costs associated with the closure of facilities of £6.7m, and certain asset write-offs totalling £29.9m. The Group restructuring charge of £2.2m relates to costs associated with the restructuring announced in August 1999 which did not qualify to be recorded last year under FRS 12.

The exceptional item within Associates is a provision for impairment of the carrying value of the Group's 25% interest in the Universal hotels joint venture. This reflects the trading performance of the Universal Studios Escape theme park.

The non-operating exceptional item consists of the profit/(loss) on the disposal of the following businesses and associated undertaking:

| | £m |
|---|---|
| Odeon Cinemas | **130.4** |
| Pinewood Studios | **35.0** |
| Tom Cobleigh | **(102.1)** |
| Universal Studios Escape | **(195.7)** |
| UK Holidays | **(315.5)** |
| Other | **(1.6)** |
| | **(449.5)** |

Odeon Cinemas was sold on 19 February 2000 to Cinven for a consideration of £280m. Pinewood Studios was sold on 22 February 2000 to a consortium led by Michael Grade, and backed by 3i Plc, for a consideration of £62m. Tom Cobleigh was sold on 4 September 2000 to Electra Partners Europe for a consideration of £90m.

The Group's interest in the theme park assets held by Universal Studios Escape was sold on 28 July 2000 to Blackstone Capital Partners III LP for cash consideration of US$275m (£182m). There is an additional payment of US$75m (£50m) due, contingent upon Blackstone achieving a certain level of return on its investment measured at the time of exit. The contingent payment has not been included within proceeds for the purpose of calculating the loss on disposal.

The UK Holidays division, comprising Butlins, Haven, Oasis and Warner, was sold on 23 October 2000 to Bourne Leisure Group for a consideration of up to £700m. The consideration comprised cash on closing of £650m, adjusted for net working capital as at the date of completion, plus a further £50m payment due on 31 March 2003, contingent upon the profitability of Butlins for the two years ending 31 December 2002. The additional £50m payment has not been included within proceeds for the purpose of calculating the loss on disposal of this business.

The total net loss on disposal of £449.5m includes £108.1m of goodwill previously written-off to reserves, comprising Universal Studios Escape £16.9m, Tom Cobleigh £56.7m and UK Holidays £34.5m.

Following the completion of the sale of UK Holidays, the Group reviewed the structure of its substantially lower level of debt. A decision was taken to repay the outstanding US$252m of private placement debt. This debt had an average maturity of 4.5 years and an average cost of 9.85%. The prepayment gave rise to a penalty charge of £20.3m, which has been shown as an exceptional item within interest payable.

An exceptional tax credit of £65.7m arose during the year, principally related to the disposal of UK Holidays.

## Cash flow

| | **2000 £m** | 1999 £m |
|---|---|---|
| Cash inflow from operating activities | **358.0** | 315.8 |
| Capital expenditure | **(144.6)** | (385.0) |
| Fixed asset disposals | **20.1** | 31.2 |
| Operating cash flow | **233.5** | (38.0) |
| Distributions from associates | **2.6** | 16.3 |
| Acquisitions | **(25.7)** | (10.6) |
| Investments | **(19.6)** | (85.5) |
| Disposals | **1,212.9** | 374.9 |
| | **1,403.7** | 257.1 |
| Interest, tax and dividend payments | **(178.2)** | (331.2) |
| Cash inflow (outflow) before use of liquid resources and financing | **1,225.5** | (74.1) |
| Purchase of Ordinary share capital | **(304.3)** | – |
| | **921.2** | (74.1) |

The Group generated net cash inflow of £921.2m in the year (1999 – net outflow of £74.1m). This largely reflects the substantial disposal proceeds received during the year.

Excluding acquisitions, investments and disposals, the Group generated £57.9m of cash, the first year since 1994 that the Group has been cash positive at this level. This was due to a combination of improved operating cash flow and significantly lower interest, tax and dividend payments.

Operating cash flow was £233.5m (1999 – net outflow of £38.0m). This reflects the measures put in place during 1999, in particular:

- capital expenditure has been more effectively controlled with net spend (after sundry disposals) of £124.5m, compared to £353.8m in 1999; and
- working capital was a net inflow of £6.4m, compared to an outflow of £95.4m in 1999.

The reduction of £153.0m in interest, tax and dividends is due to a net tax repayment of £12.8m (1999 – payment of £51.5m), and lower levels of dividend payments as a result of the reduction in the dividend per share in 1999, lower number of shares in issue and the deferred payment of the 1998 interim dividend in 1999.

Capital expenditure by division was as follows:

| | **2000 £m** | 1999 £m |
|---|---|---|
| Gaming | **34.3** | 43.9 |
| Hard Rock | **13.9** | 31.8 |
| Deluxe | **24.2** | 44.4 |
| US Holidays | **1.1** | 0.9 |
| Discontinued operations | **71.1** | 264.0 |
| | **144.6** | 385.0 |

Acquisitions were the Park Tower Casino in London and the Pioneer DVD facility in California. Investments reflect further equity injections in respect of Universal Studios Escape (including the hotels) and Universal Studios Japan.

Disposals comprise the proceeds from the sales of Odeon Cinemas, Pinewood Studios, Tom Cobleigh, Universal Studios Escape and UK Holidays. Of the net proceeds of £1,212.9m, an amount of £304.3m was used to purchase 181.8m Ordinary shares, amounting to 23.5% of the issued share capital as at 1 January 2000.

### Borrowings

At 31 December 2000, net debt was £319.9m compared with £1,161.9m at 31 December 1999. The majority of the net debt was denominated in US dollars, with most of the balance in sterling.

Net debt as a percentage of shareholders' funds was 58% compared with 98% at 31 December 1999.

At the year end, the Group had committed facilities available amounting to £1,078.3m. Of these facilities, a £600m revolving credit facility maturing in July 2001 was cancelled subsequent to the year end in favour of a replacement £250m revolving credit facility which will mature in 2004. The balance of facilities remains adequate to meet Rank's immediate needs.

The Company's Articles of Association provide that borrowings shall not exceed one and a half times the adjusted share capital and consolidated reserves of Rank. As at 31 December 2000, this limit was £834.5m compared with relevant borrowings of £362.3m.

### Treasury policy

Rank seeks to achieve certainty of value on its foreign currency purchases and sales by buying or selling forward a portion of its estimated net currency requirements up to a year ahead, or longer where an external currency exposure exists, or is forecast to exist. At 31 December 2000, at least 70% of anticipated core currency transaction exposures for the following 12 months had been hedged. Balance sheet currency exposure in respect of investments in overseas subsidiaries is minimised by hedging the underlying asset position with currency borrowings.

Rank seeks to protect itself against material adverse movements in interest rates by undertaking controlled management of the interest rate structure on Group investments and borrowings. This exposure is managed by fixing interest rates on a portion of the Group's borrowings dependent on the level of gearing.

The Directors review and agree the broad policies and guidelines for all significant areas of treasury activity, including key ratios, funding and risk management. Implementation of these policies is carried out by the Group treasury department, under close management direction. The treasury function is not operated as a profit centre.

Rank uses off-balance sheet financial instruments, including foreign exchange forward contracts and interest rate swaps, in its management of exchange rate and interest rate exposures. Off-balance sheet financial instruments are only used to hedge underlying commercial exposures. Therefore, while these instruments are subject to the risk of loss from changes in exchange rates and interest rates, such losses would be offset by gains in the related exposures. Rank does not speculate in derivative financial instruments. Realised and unrealised gains and losses on foreign exchange forward contracts that hedge firm third party commitments are recognised in income in the same period as the underlying transaction. Net interest paid or received on interest rate swap contracts is included in net interest expense.

Further information on borrowings and financial instruments is contained in notes 18 and 19 to the accounts.

### Shareholders' funds

Shareholders' funds were £556.3m at the end of 2000 compared with £1,183.8m at the end of 1999. The reduction reflects the net loss incurred by the Group, principally due to the disposal programme, and the purchase of Ordinary share capital during the year.

# DIRECTORS' REPORT

The Directors submit their Report and Statement of Accounts for the year ended 31 December 2000.

### Principal activities and business review

Rank is one of the UK's leading leisure and entertainment companies and an international provider of services to the film industry. In 2000, leisure and entertainment activities included Hard Rock cafes and global rights to the Hard Rock brand, casinos, bingo clubs, pub restaurants and holiday resorts. Rank also owns film processing and video and digital versatile disc ("DVD") duplication and distribution facilities. Rank operates primarily in the United Kingdom and North America, although it also has activities in continental Europe and other parts of the world.

In February 2000, Rank sold Odeon Cinemas for a consideration of £280m and Pinewood Studios for a consideration of £62m. In July 2000 Rank sold its 50% investment in Universal Studios Escape in Florida for a consideration of £182m, and in September 2000 Rank sold Tom Cobleigh for a consideration of £90m. In October 2000 Rank sold its Holidays Division (excluding Resorts USA) for a consideration of up to £700m. During the year Rank acquired a DVD authoring and replication facility in California for a consideration of £12m, and the Park Tower Casino in London for a consideration of £14m.

An analysis of turnover, profit, operating assets and net cash flow by business activity is given on pages 35 to 36. The Group's continuing activities and businesses are reported on in the Operating and Financial Review.

### Result and dividends

Loss before tax for the year was £341.1m (1999 – £107.6m profit). Loss for the year after tax and minority interests was £320.4m (1999 – £68.1m profit).

The Directors recommend a final dividend of 8.0p per Ordinary share which, together with the interim dividend of 4.0p already declared, makes a total for the year of 12.0p per Ordinary share (1999 – 12.0p). Subject to approval at the Annual General Meeting, the final dividend will be paid on 4 May 2001 to those shareholders whose names are on the register on 6 April 2001.

### Fixed assets

The Directors have considered the total net book value of land and buildings and are of the opinion that it is not significantly different from market value at 31 December 2000.

### Share capital

Details of the new Ordinary shares issued pursuant to the exercise of options under Rank's share option schemes are set out in note 23. Note 23 also contains details of the Ordinary shares issued pursuant to the conversion of the Company's Convertible Preference shares.

During the year the Company purchased 181,796,687 Ordinary shares with a nominal value of £18.2m for an aggregate consideration of £304.3m. This represented 23.5% of the Ordinary shares in issue at 1 January 2000. The reason for the purchases was to provide an enhancement in earnings per share in future years, without harming the ability of the Group to develop its core activities. A resolution will be proposed at the Annual General Meeting to authorise the Directors to allot and grant rights over the unissued share capital and to authorise the Directors to allot and grant rights over Ordinary shares for cash up to a maximum nominal amount representing 5% of the issued Ordinary share capital, without first making a pro rata offer to all existing Ordinary shareholders.

Resolutions will also be proposed at the Annual General Meeting to authorise the Company to purchase up to 15% of its Ordinary shares and Convertible Preference shares at or between the minimum and maximum prices specified in the relevant resolution set out in the notice of meeting. The authorities would only be exercised by the Directors if they considered it to be in the best interests of shareholders generally and if the purchases could be expected to result in an increase in earnings per share.

### Directors

The current Directors of the Company are listed on page 26 and all of them were Directors of the Company throughout the year.

Peter Jarvis (Chairman of the Remuneration Committee) will retire by rotation at the Annual General Meeting, having served as a Director for more than three years since he was last re-appointed, and, being eligible, will offer himself for re-election. He does not have a service agreement with the Company. Sir Denys Henderson, Hugh Jenkins and Christine Morin-Postel are also retiring by rotation at the Annual General Meeting but are not offering themselves for re-election. Cob Stenham resigned as a Director on 27 April 2000.

The interests of the Directors in the shares of the Company, together with their remuneration and, where applicable, their service agreements, are detailed in the Remuneration Report. Biographical details of the Directors are given on page 26.

## Human resources

The Company recognises that the contribution made by its employees is crucial to the success of each of its businesses. Substantial investment is therefore made in the training, development and motivation of staff with particular attention to ensuring customer satisfaction through the consistent achievement of high standards of service and delivery of quality products.

Employee involvement in the direction and objectives of the business is encouraged through the use of incentive schemes to focus employees on the key performance indicators of each business. In addition, communication and consultation programmes exist at site, company and Group level.

The Company endorses the active application of equal opportunities policies and programmes to provide fair and equitable conditions for all employees regardless of sex, family status, religion, creed, colour, ethnic origin, age, disability or sexual orientation.

## Environment

The Group's policy is to encourage respect for the environment and Rank adopts an environmentally responsible attitude in the fulfilment of its business objectives. Close attention is paid to energy and water conservation and recycling of waste material where economically practical.

## Payment of suppliers

The Company and its subsidiaries agree terms and conditions for their business transactions with their suppliers. Payment is then made on these terms, subject to the terms and conditions being met by the supplier. Given the diversity of the Group's businesses and the widely differing credit terms which apply in the various industries and territories in which they operate, the Directors consider that it is not meaningful to disclose an average period of credit taken.

## Significant shareholdings

At the date of this report the Company has been notified of the following interests over its Ordinary shares in accordance with Sections 198 to 208 of the Companies Act 1985: UBS UK Holding Ltd (78,128,018 – 13.20%), BriTel Fund Trustees Ltd (37,062,339 – 6.26%), AXA-UAP S.A. (35,429,050 – 5.99%) and Halifax Group plc (24,912,908 – 4.21%).

## Charitable and political donations

Charitable donations made in the UK during the year amounted to £82,000 (1999 – £164,000). Overseas companies supported a variety of local and national charities and, in particular, Hard Rock Cafe International Inc. donated approximately US$205,000 (1999 – US$365,000), continuing its focus on humanitarian and environmental causes. The Company made no political donations in the year.

## Auditors

The auditors, PricewaterhouseCoopers, have indicated their willingness to continue in office and a resolution that they be re-appointed, at a remuneration to be agreed by the Directors, will be proposed at the Annual General Meeting.

By order of the Board

**Charles Cormick**
Secretary, The Rank Group Plc, Registered No. 3140769
Registered Office:
6 Connaught Place, London W2 2EZ

1 March 2001

# REMUNERATION REPORT

A Remuneration Committee has been established for a number of years with formal terms of reference which include making recommendations on the Company's framework of executive remuneration and its cost, and determining on behalf of the Board the specific remuneration, benefits and employment packages of the Chairman of the Company and its executive Directors.

### The Remuneration Committee

The Remuneration Committee continues to be comprised solely of non-executive Directors who bring a wide range of experience from other organisations. The Committee is chaired by Peter Jarvis, Chairman of Debenhams PLC, and its other members are Hugh Jenkins, Chairman of Development Securities Plc, and John Sunderland, Chief Executive Officer of Cadbury Schweppes plc. They have no personal financial interest other than as shareholders in the matters to be decided, no potential conflict of interest arising from cross directorships and no day to day involvement in running the business of the Group.

The Committee meets at least twice a year and reviews the Company's remuneration policies and practices to enable it to make appropriate recommendations to the Board. The Committee consults with both internal and external professional advisers when determining appropriate packages and specifically monitors pay and employment conditions existing within the Group, including current and anticipated levels of pay increases.

The Chairman and the Chief Executive are normally in attendance at Committee meetings except for when their own remuneration is being considered.

During the year the Committee reviewed and confirmed its policy on executive Directors' remuneration, which continues to be designed to ensure that the Chairman and executive Directors are rewarded competitively in relation to other companies in order to attract, retain and motivate them to meet the reasonable expectations of shareholders.

The outcome of the Committee's deliberations was as follows:

### Annual salary and benefits

The Committee continued to follow the broad principle that base salaries should be paid at the median level in comparison with comparable jobs in selected relevant companies. Comparator groups are typically based on sector, turnover and market capitalisation. For guidance in determining base salaries, the Remuneration Committee uses published job matched surveys undertaken by professional remuneration consultants and, in addition, in 2000 the Remuneration Committee again commissioned its own independent review of remuneration of Rank Directors.

Benefits include a car, or cash allowance in lieu, and life, disability and health insurance.

### Bonuses

The Company has operated annual cash bonus schemes for a number of years, as the Committee believes that executive Directors and other employees should be given the opportunity to receive additional remuneration based on their contribution to the overall performance of the Company in a given year.

Given the extent of transformation of the Group in 2000 and the consequent need to retain and incentivise management in these unusual circumstances, particular focus was given in the year to short term bonus arrangements. This was in line with the Company's policy that the balance between base salary, annual bonuses and longer term incentive arrangements should be adjusted to reflect the particular current objectives of the Group whilst broadly conforming to market competitive practice, using a total remuneration methodology.

For 2000 the Company therefore introduced a simplified bonus scheme for executive Directors and certain selected top management to add focus to the drive to improve performance. Payment was based on the achievement of operating profit targets and clearly defined personal objectives in order to appropriately incentivise individual performances. The scheme was divided into two periods of six months, with appropriate targets being established for each of the periods against which performance was measured. The resultant cash bonuses for executive Directors are disclosed in the table overleaf, headed 'Annual bonus'.

The Company also introduced a retention scheme for selected top management to encourage them to stay with the Company during this period of substantial change. Under this scheme cash amounts equal to the bonus earned were accrued and become payable after June 2001, subject to the employee continuing to be employed by the Company. Your Committee considered it appropriate that executive Directors should enjoy the same prospect for the overall percentage level of bonus payout that their senior colleagues enjoy under this special scheme. Accordingly, additional cash bonuses relating to 2000 accrued to executive Directors, payment of which is deferred until after June 2001. These amounts are disclosed in the table overleaf headed "Deferred bonus".

### Remuneration

The remuneration of the Chairman and all Directors in the year is detailed overleaf.

Pension entitlements have been disclosed in accordance with the requirements of the Listing Rules of the Financial Services Authority and, in particular, details are given of the transfer value (less Directors' contributions) of the relevant increase in accrued benefit, calculated in accordance with Actuarial Guidance Note GN11 but making no deduction for any underfunding, as at the end of the period.

### Share Option Schemes

Rank has operated an executive share option scheme for Directors and other senior managers since 1985. In 1997 the Committee decided that no further grants would normally be made to members of the Executive Committee, with the exception of new recruits, whilst they participate in the long-term incentive plan (see below).

The Company's policy with regard to the level of allocation and frequency of options to those employees below the Executive Committee is one of regular annual grants of smaller allocations and is consistent with market competitive practice. Share options therefore continue to play a part in Rank's overall remuneration policy. However, the performance criteria attaching to executive options since 1995 – namely average annual real growth of at least 2% in normalised earnings per share over a three year period – has not been met in respect of any options granted since 1996.

Rank has also operated Save As You Earn ("SAYE") Option Schemes since 1985 which are now generally open to all full time UK employees and Directors. Inland Revenue rules limit the maximum amount which can be saved to £250 per month. Options are granted to acquire the number of shares that the total savings will buy when the savings contracts mature, in accordance with the rules of the scheme. No SAYE Option Scheme was launched in 2000 but it has been decided that all UK employees will be invited to participate in a further scheme in 2001.

The Directors' interests in shares of the Company, including options to purchase Ordinary shares under the terms of the Group's executive share option schemes ("ESOS") and SAYE schemes, are given below:

| | 31 December 2000 | | | | | 1 January 2000 | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Ordinary shares | Preference shares | ESOS | SAYE | Exercise price (p) | Ordinary shares | Preference shares | ESOS | SAYE |
| Ian Dyson | 20,000 | – | 278,225 | – | 248.00 | 15,000 | – | 278,225 | – |
| Jerry Fowden | 20,105 | – | 129,697 | – | 346.96 | 20,105 | – | 129,697 | – |
| | – | – | 70,854 | – | 338.72 | – | – | 70,854 | – |
| | – | – | 80,120 | – | 337.00 | – | – | 80,120 | – |
| | – | – | 21,549 | – | 222.75 | – | – | 21,549 | – |
| | – | – | – | 9,427 | 179.00 | – | – | – | 9,427 |
| Sir Denys Henderson | 100,000 | 35,000 | – | – | – | 77,972 | 35,000 | – | – |
| Peter Jarvis | 20,113 | – | – | 5,412 | 179.00 | 20,113 | – | – | 5,412 |
| Hugh Jenkins | 36,899 | – | – | 5,412 | 179.00 | 36,899 | – | – | 5,412 |
| Christine Morin-Postel | 3,725 | – | – | – | – | – | – | – | – |
| Mike Smith | 40,000 | – | 795,580 | – | 226.25 | 30,000 | – | 795,580 | – |
| Oliver Stocken | 25,000 | – | – | – | – | 10,000 | – | – | – |
| John Sunderland | 1,058 | – | – | – | – | 1,058 | – | – | – |

No options to subscribe for Ordinary shares of the Company were granted to Directors, or lapsed, during the year ended 31 December 2000.

The market price of an Ordinary share at 31 December 2000 was 175p and the range during the preceding 12 months was 133p to 207p. Options outstanding at 31 December 2000 are exercisable at various dates between 8 August 2000 and 19 October 2010. There were no changes in Directors' interests between 1 January 2001 and the date of this report.

Pursuant to the provisions of the Companies Act 1985, each executive Director is also deemed to be interested in the Ordinary shares of the Company held by The Rank Group Plc Employee Benefit Trust. At 1 January 2000 the interest was in a total of 390,000 Ordinary shares and at 31 December 2000, and the date of this report, the interest is in a total of 324,389 Ordinary shares.

## Long Term Incentive Plan

A long term incentive plan was first introduced in 1995. The performance criteria attaching to awards under the plan have not been satisfied in recent years and, therefore, no awards have been made under this plan since 1998.

A new long term incentive plan (the Rank Group 2000 Long Term Incentive Plan) was introduced in 2000 following its approval at last year's annual general meeting. The plan provides for selected executives to be given restricted awards over existing Ordinary shares with a market value of up to one times base salary. The release of the awards is dependent upon the achievement of a demanding corporate performance target over three consecutive financial years of the Company. Awards granted in 2000 will be released if a total shareholder return target is achieved and if there is an average annual real growth in normalised earnings per share of at least 2% over the performance period. Total shareholder return is measured by reference to the change in the price of Ordinary shares over the performance period and the gross value of dividends received on the shares, assuming they are immediately reinvested in shares during that period. The total shareholder return of the Company will be compared with that of eighteen other FTSE 250 companies focussing on leisure or retailing.

An executive will receive the maximum number of shares comprised in an award (i.e. 100%) only if over the performance period the total shareholder return from a share in the Company exceeds the total shareholder return achieved by at least 75% of the companies in the comparator group. In order for an executive to receive the minimum number of shares comprised in an award (i.e. 30%), over the performance period the total shareholder return from a share in the Company must exceed the total shareholder return achieved by at least 50% of the companies in the comparator group. The percentage of shares to be released for performance between the minimum and maximum targets will increase on a straight-line basis.

The following conditional awards were granted to executive Directors in 2000:

| Director | Award of Ordinary shares | Release year |
|---|---|---|
| Ian Dyson | 163,822 | 2003 |
| Jerry Fowden | 177,474 | 2003 |
| Mike Smith | 317,406 | 2003 |

### Pensions and pensionable remuneration

Each executive Director is a member of The Rank Pension Plan which is a defined benefit scheme. Accrual rates under the plan differ according to individual circumstances but do not exceed 1/30th of an individual's pensionable earnings for each year of pensionable service. Pensionable earnings are broadly defined as PAYE earnings of an individual save that cash bonuses received by executive Directors are not pensionable; the cash values of other benefits in kind are also not pensionable. The normal retirement age of executive Directors is 60.

The amount of pension which can be provided by the Rank Pension Plan is restricted in the case of all three executive Directors as they are subject to the limit imposed by the Finance Act 1989 on that part of an employee's pension which can be funded through an approved scheme. The current limit is a pension on a salary of £91,800. In the case of both Mike Smith and Jerry Fowden the Company has therefore agreed to pay an amount equal to 45% and 31% of their base salaries respectively into two separate unapproved retirement benefit schemes, which are defined contribution schemes. In the case of Ian Dyson, the Company has agreed to pay a supplement to his salary of an amount equal to 20% of his base salary.

### Directors' emoluments
### Chairman and executive Directors

| | Base salary | | Benefits | | Annual bonus | | Deferred bonus | | Total emoluments excluding pensions | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2000 £000** | 1999 £000 | **2000 £000** | 1999 £000 | **2000 £000** | 1999 £000 | **2000 £000** | 1999 £000 | **2000 £000** | 1999 £000 |
| Ian Dyson[1] | **240** | 70 | **9** | 3 | **107** | 76 | **107** | – | **463** | 149 |
| Jerry Fowden[2] | **238** | – | **44** | – | **190** | – | **60** | – | **532** | – |
| Sir Denys Henderson | **275** | 275 | **13** | 15 | **–** | – | **–** | – | **288** | 290 |
| Mike Smith[3] | **465** | 338 | **16** | 11 | **207** | 149 | **207** | – | **895** | 498 |

### Non-executive Directors' emoluments

| | **2000 £000** | 1999 £000 |
|---|---|---|
| Peter Jarvis | **32** | 29 |
| Hugh Jenkins | **28** | 25 |
| Christine Morin-Postel | **28** | 25 |
| Cob Stenham[4] | **11** | 29 |
| Oliver Stocken | **30** | 25 |
| John Sunderland | **28** | 25 |

### Pension entitlements
### Defined benefit arrangements

| | Accrued entitlement at 31.12.00 £000 pa | Additional pension earned during year ended 31.12.00 £000 pa | Transfer value of increase in pension (less Directors' contributions) £000 | Directors' contributions paid during year ended 31.12.00 £000 |
|---|---|---|---|---|
| Ian Dyson[1] | 4 | 3 | 20 | 5 |
| Jerry Fowden[2] | 5 | 2 | 12 | 5 |
| Mike Smith[3] | 3 | 2 | 19 | 5 |

### Defined contribution arrangements

| | Contributions paid during year ended 31.12.00 £000 |
|---|---|
| Jerry Fowden[2] | 74 |
| Mike Smith[3] | 209 |

### Salary supplement

| | **2000 £000** | 1999 £000 |
|---|---|---|
| Ian Dyson[1] | **48** | 14 |
| Mike Smith[3] | **–** | 152 |

[1]appointed on 13 September 1999
[2]appointed on 1 January 2000
[3]appointed on 1 April 1999
[4]resigned on 27 April 2000

## Directors' service contracts

The Chairman and the executive Directors have service contracts with the Company, but the non-executive Directors do not. The Board has, however, adopted a policy that non-executive Directors will normally be expected to retire from the Board at the conclusion of the seventh Annual General Meeting following their appointment by the Board. The Chairman has a service contract with a notice period of one year. The Board has determined that executive Directors should have notice periods of one year, although a longer initial notice period may be proposed. This policy was applied to the service contracts of all three executive Directors; all have service contracts which for the initial two years are terminable by either party on two years' notice and at the end of the two years, the agreements are terminable on one year's notice.

Any Director leaving service at the request of the Company (other than for gross misconduct) will be provided with compensation related to age, service and the circumstances relating to his departure. The duty to mitigate will also be taken into consideration when determining any severance payment.

## Non-executive Directors

The remuneration of non-executive Directors is determined by the Board. In 2000 the remuneration consisted of annual fees of £27,500 and additional fees of £4,000 for chairing the Audit and Remuneration Committees.

The Chairman and the non-executive Directors do not participate in the annual bonus scheme, any Company pension scheme, the executive share option scheme or the long term incentive plan.

On behalf of the Board

**Sir Denys Henderson**
**Chairman**

**Peter Jarvis**
**Chairman of the Remuneration Committee**

The policy of the Board is to manage the affairs of the Company in accordance with the Principles of Good Governance and Code of Best Practice as set out in Section 1 of the Combined Code annexed to the Listing Rules of the Financial Services Authority.

## Application of Principles of Good Governance

### Directors

The Directors believe that it is essential that the Company should be led and controlled by an effective Board. To this end, regular Board meetings are held (not less than eight meetings in a year) and the Board receives a steady flow of information to enable it to discharge its duties. There is a formal schedule of matters reserved for the Board's decision, and all Directors have access to the advice and services of the Company Secretary and to independent professional advice, if required, at the Company's expense. Training programmes, including induction into the operations of the Company, are developed for newly appointed Directors. The current composition of the Board is detailed on page 26.

The Board has established the following Committees, each with a formal constitution, to facilitate its operations:

### The Audit Committee

The Audit Committee meets not less than twice a year and assists the Board in reviewing the effectiveness of internal control systems. The Committee also reviews financial statements to be published externally before their submission to the Board, to ensure they present a fair assessment of the Group's position and prospects. It also authorises any change in accounting policies. The Committee meets at least annually with the auditors without executive management being present.

### The Finance Committee

The Finance Committee is an executive committee to which certain specific authorities have been delegated by the Board, principally in respect of capital expenditure authorisation and financing of the Group.

### The Nomination Committee

The Nomination Committee proposes Board appointments, both executive and non-executive, for approval by the Board. Decisions on Board appointments are a matter for the whole Board.

### The Remuneration Committee

The Remuneration Committee meets not less than twice a year and is responsible for determining the remuneration packages of the Chairman, the executive Directors, and other members of the Executive Committee. Details of the Remuneration Committee's deliberations during the year are contained in the Remuneration Report on pages 20 to 23.

The composition of each of these Committees is given on page 26.

### The Executive Committee

The Executive Committee is not a committee of the Board. Its role is to assist the Chief Executive in fulfilling his responsibilities for directing and promoting the profitable operation and development of the Group, consistent with the primary objective of creating long term shareholder value. It currently consists of the Chief Executive, Finance Director, Company Secretary, Human Resources Director and the Managing Directors of Divisions.

### Directors' remuneration

Details of Directors' remuneration, and the process for its determination, are contained in the Remuneration Report.

### Relations with shareholders

The Company maintains regular dialogue with its institutional shareholders and city analysts. Various presentations and visits are made throughout the year, and regular meetings are held with principal shareholders. All shareholders are welcome to attend the Annual General Meeting and private investors are encouraged to take advantage of the opportunity given to ask wide-ranging questions.

### Accountability and audit

The means by which the Board applies the principles of accountability and audit are set out overleaf.

### Compliance with Code provisions

The Company has throughout the year complied with the Code provisions set out in Section 1 of the Combined Code save as follows:

### Code provision A.2.1

The Board has carefully considered the proposal that a senior independent director should be identified in the annual report and concluded that this would be inappropriate given that the Chairman of the Company and the chairmen of the Audit and Remuneration Committees are already identified.

## Internal control

The Board maintained the procedures necessary to implement the requirements of the Combined Code relating to internal control as described in the September 1999 guidance "Internal Control: Guidance for Directors on the Combined Code" (Turnbull Report). In relation to Code provision D.2.1, the Board reports below on the procedures that have been applied in reviewing the effectiveness of the system of internal control.

The Board confirms that there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Company. The process has been in place throughout the year and up to the date of approval of the annual report and accounts. It is regularly reviewed by the Board and accords with the guidance set out in the Turnbull Report.

The Directors acknowledge that they are responsible for the Group's system of internal control, for setting policy on internal control and for reviewing the effectiveness of internal control. The role of management is to implement Board policies on risk and control. The system of internal control is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

Considerable importance is placed on maintaining a strong control environment. In particular, there is a simple organisational structure with clearly drawn lines of accountability and delegation of authority; adherence to specified codes of conduct is required at all times; and the Board actively promotes a culture of quality and integrity. A Group risk management policy has been produced and regular meetings of the Group Risk Management Committee take place, chaired by the Finance Director.

The Group Risk Management Committee directs and reviews risk management activities within the Group, so that the significant risks facing the Group can be reported to the Audit Committee and the Board. The Group-wide risk assessment process includes a review that covers all controls, including financial, operational and compliance controls and risk management. The report to the Audit Committee also provides information on the management and control of significant risks and monitors compliance with the Group risk management policy.

Detailed control procedures exist throughout the operations of the Group and compliance is monitored by management, internal auditors and, to the extent they consider necessary to support their audit report, external auditors. The Group retains an internal audit function, which is outsourced to PricewaterhouseCoopers.

The Audit Committee has reviewed the effectiveness of the system of internal control during the year ended 31 December 2000. This has included consideration of the Group-wide risk assessment and the results of a control's self-certification exercise throughout the Group. The Audit Committee has also considered reports from internal and external auditors.

The Audit Committee has reported the results of its work to the Board and these have been considered by the Board in its review of the effectiveness of the Group's system of internal control.

## Going concern

After reviewing the Group's budget for 2001 and its medium term plans, the Directors are confident that the Company and the Group have adequate financial resources to continue in operational existence for the foreseeable future. They have therefore continued to adopt the going concern basis in preparing the accounts.

# BOARD OF DIRECTORS

## The Board

**Sir Denys Henderson  Chairman**
A Director since 1994. Aged 68.
First Commissioner and Chairman of The Crown Estate and a non-executive Director of Market and Opinion Research International Limited and Schlumberger Limited. Formerly Chairman of ICI PLC and Zeneca Group PLC.

**Mike Smith**
Appointed Chief Executive on 1 April 1999. Aged 54. Formerly a Director of Hilton Group PLC. Director of The Motor Industry Research Association.

**Ian Dyson**
Appointed Finance Director on 13 September 1999. Aged 38. Formerly Group Financial Controller of Hilton Group PLC and previously a partner of Arthur Andersen.

**Jerry Fowden**
Appointed a Director on 1 January 2000. Aged 44. Joined Rank as Managing Director of Holidays in May 1997. Formerly Executive Director and CEO of the beverage division of Hero AG, Switzerland, and prior to this, Chief Operating Officer of Bass Brewers.

**Peter Jarvis, CBE**
An independent non-executive Director since 1995. Aged 59. Chairman of Debenhams PLC and a non-executive Director of Barclays Bank PLC. Formerly Chief Executive of Whitbread PLC.

**Hugh Jenkins, CBE**
An independent non-executive Director since 1995. Aged 67. Chairman of Development Securities PLC and a non-executive Director of EMI Group plc, Johnson Matthey PLC and Gartmore European Investment Trust. Formerly Chairman and Chief Executive of Prudential Portfolio Managers Limited.

**Christine Morin-Postel**
An independent non-executive Director since 1996. Aged 54. Senior Vice President of Suez Lyonnaise des Eaux and a Director of Société Générale de Belgique, Fortis B, Tractebel and Union Minière. Chairman of Trigen US.

**Oliver Stocken**
An independent non-executive Director since 1998. Aged 59. Non-executive Chairman of Lupus Capital plc, Rutland Trust PLC and Stanhope Plc, and a non-executive Director of 3i Group plc, Novar plc, Pilkington plc and The Great Universal Stores P.L.C. Formerly Finance Director of Barclays Bank PLC.

**John Sunderland**
An independent non-executive Director since 1998. Aged 55. Chief Executive Officer of Cadbury Schweppes plc.

## Executive Committee

**Mike Smith**
**Ian Dyson**
**Jerry Fowden**

**Pete Beaudrault**
Appointed President and Chief Operating Officer of Hard Rock in January 1999 and to the Executive Committee in February 2000. Appointed Chief Executive Officer of Hard Rock in February 2001. Aged 46. Based in Orlando, Florida.

**David Boden**
Appointed Managing Director of Gaming in January 1998 and to the Executive Committee in January 1999. Aged 44. Formerly Managing Director of Grosvenor Casinos. Director of The National Bingo Game Association Limited.

**Phil Clement**
Appointed Managing Director of Deluxe in March 1996. Aged 56. Formerly President and CEO of Deluxe Video Services and Deluxe Laboratories worldwide. Based in Los Angeles, California.

**Charles Cormick**
Joined Rank as Company Secretary in 1995. Aged 49.
A solicitor, and formerly Company Secretary of Lex Service PLC.

**Christine Ray**
Appointed to the Executive Committee as Group Human Resources Director in February 2001. Aged 52. Formerly Human Resources Director of Holidays, having joined Rank following Rank's acquisition of Mecca Leisure in 1990.

## Audit Committee

**Oliver Stocken  Chairman**
**Hugh Jenkins**
**Christine Morin-Postel**

## Nomination Committee

The composition of this committee is determined according to the particular appointment under consideration.

## Remuneration Committee

**Peter Jarvis  Chairman**
**Hugh Jenkins**
**John Sunderland**

# DIRECTORS' RESPONSIBILITIES IN RELATION TO THE ACCOUNTS

The Directors are required by the Companies Act 1985 to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year and of the profit or loss for the financial year.

In preparing the accounts the Directors are required to select appropriate accounting policies and apply them consistently, to make reasonable and prudent judgements and estimates, and to state that all accounting standards which they consider to be applicable have been followed, save as disclosed in the notes to the accounts. The Directors are also required to prepare the accounts on the going concern basis unless it is inappropriate to do so.

The Directors have responsibility for ensuring that the Company keeps accounting records which disclose with reasonable accuracy at any time the financial position of the Company and which enable them to ensure that the accounts comply with the Companies Act 1985.

The Directors also have responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

# REPORT OF THE AUDITORS TO THE MEMBERS OF THE RANK GROUP PLC

We have audited the accounts on pages 29 to 56 and the information set out in the tables on pages 21 to 22 within the Remuneration Report.

**Respective responsibilities of Directors and auditors**

The Directors are responsible for preparing the Annual Report. As described on page 27, this includes responsibility for preparing the accounts in accordance with applicable United Kingdom accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority and our profession's ethical guidance.

We report to you our opinion as to whether the accounts give a true and fair view and are properly prepared in accordance with the United Kingdom Companies Act. We also report to you if, in our opinion, the Directors' Report is not consistent with the accounts, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding Directors' remuneration and transactions is not disclosed.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounts.

We review whether the statement on page 24 reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

**Basis of audit opinion**

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts.

**Opinion**

In our opinion the accounts give a true and fair view of the state of affairs of the Company and the Group at 31 December 2000 and of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PRICEWATERHOUSECOOPERS

Chartered Accountants and Registered Auditors
London

1 March 2001

## GROUP PROFIT AND LOSS ACCOUNT
for the year ended 31 December 2000

| | Note | 2000 Before exceptional items £m | 2000 Exceptional items £m | 2000 Total £m | 1999 Before exceptional items £m | 1999 Exceptional items £m | 1999 Total £m |
|---|---|---|---|---|---|---|---|
| **Turnover** | | | | | | | |
| Continuing operations | | **1,393.1** | **–** | **1,393.1** | 1,330.0 | – | 1,330.0 |
| Acquisitions | | **11.0** | **–** | **11.0** | – | – | – |
| | 1,2 | **1,404.1** | **–** | **1,404.1** | 1,330.0 | – | 1,330.0 |
| Discontinued operations | 1,2 | **389.3** | **–** | **389.3** | 711.4 | – | 711.4 |
| | 1,2 | **1,793.4** | **–** | **1,793.4** | 2,041.4 | – | 2,041.4 |
| **Operating profit** | | | | | | | |
| Continuing operations | | **206.1** | **(43.5)** | **162.6** | 196.0 | (85.6) | 110.4 |
| Acquisitions | | **(3.0)** | **–** | **(3.0)** | – | – | – |
| | 1,2 | **203.1** | **(43.5)** | **159.6** | 196.0 | (85.6) | 110.4 |
| Discontinued operations | 1,2 | **59.7** | **–** | **59.7** | 111.0 | (12.8) | 98.2 |
| **Group operating profit** | 1,2 | **262.8** | **(43.5)** | **219.3** | 307.0 | (98.4) | 208.6 |
| **Share of operating profit in joint ventures and associates** | | | | | | | |
| Joint ventures | 12 | **5.6** | **–** | **5.6** | 6.0 | – | 6.0 |
| Associated undertakings | 13 | **12.1** | **(13.8)** | **(1.7)** | 21.5 | (45.7) | (24.2) |
| | | **280.5** | **(57.3)** | **223.2** | 334.5 | (144.1) | 190.4 |
| **Non-operating items** | | | | | | | |
| Loss on disposal of continuing operations | 3 | **–** | **(0.6)** | **(0.6)** | – | (0.5) | (0.5) |
| (Loss) profit on disposal of discontinued operations | 3 | **–** | **(448.9)** | **(448.9)** | – | 33.0 | 33.0 |
| **Profit (loss) before interest** | | **280.5** | **(506.8)** | **(226.3)** | 334.5 | (111.6) | 222.9 |
| **Net interest payable and similar charges** | | | | | | | |
| Group | 4 | **(67.4)** | **(20.3)** | **(87.7)** | (79.2) | (8.5) | (87.7) |
| Joint ventures | 12 | **(3.5)** | **–** | **(3.5)** | (3.7) | – | (3.7) |
| Associated undertakings | 13 | **(23.6)** | **–** | **(23.6)** | (23.9) | – | (23.9) |
| | | **(94.5)** | **(20.3)** | **(114.8)** | (106.8) | (8.5) | (115.3) |
| **Profit (loss) on ordinary activities before tax** | | **186.0** | **(527.1)** | **(341.1)** | 227.7 | (120.1) | 107.6 |
| Tax on profit (loss) on ordinary activities | 5 | **(42.0)** | **65.7** | **23.7** | (51.0) | 13.2 | (37.8) |
| **Profit (loss) on ordinary activities after tax** | | **144.0** | **(461.4)** | **(317.4)** | 176.7 | (106.9) | 69.8 |
| Equity minority interests | 24 | **(3.0)** | **–** | **(3.0)** | (1.7) | – | (1.7) |
| **Profit (loss) for the financial year** | | **141.0** | **(461.4)** | **(320.4)** | 175.0 | (106.9) | 68.1 |
| **Dividends and other appropriations** | | | | | | | |
| Preference | 7 | **(21.0)** | **–** | **(21.0)** | (21.0) | – | (21.0) |
| Ordinary | 7 | **(69.1)** | **–** | **(69.1)** | (92.7) | – | (92.7) |
| **Transfer from reserves** | 23 | **50.9** | **(461.4)** | **(410.5)** | 61.3 | (106.9) | (45.6) |
| **Basic and diluted earnings (loss) per Ordinary share** | 8 | **17.3p** | **(66.4)p** | **(49.1)p** | 19.9p | (13.8)p | 6.1p |

There is no difference between the result as disclosed in the profit and loss account and that on an unmodified historical cost basis.

## BALANCE SHEETS
at 31 December 2000

| | | Group | | Company | |
|---|---|---|---|---|---|
| | Note | **2000 £m** | 1999 £m | **2000 £m** | 1999 £m |
| **Fixed assets** | | | | | |
| Intangible assets | 9 | **7.6** | 4.1 | **–** | – |
| Tangible assets | 10 | **775.8** | 1,938.5 | **–** | – |
| **Investments** | | | | | |
| Subsidiary undertakings | 11 | **–** | – | **1,697.0** | 2,380.0 |
| Joint ventures | | | | | |
| Share of gross assets | | **70.2** | 75.2 | – | – |
| Share of gross liabilities | | **(54.6)** | (60.8) | – | – |
| | 12 | **15.6** | 14.4 | **–** | – |
| Associated undertakings | 13 | **0.7** | 354.6 | **–** | – |
| Other | 14 | **40.0** | 20.7 | **0.6** | 0.8 |
| | | **839.7** | 2,332.3 | **1,697.6** | 2,380.8 |
| **Current assets** | | | | | |
| Stocks | 15 | **65.2** | 88.6 | **–** | – |
| Debtors (amounts falling due within one year) | 16 | **363.3** | 371.1 | **–** | 131.0 |
| Debtors (amounts falling due after more than one year) | 16 | **122.8** | 151.9 | **–** | – |
| Investments | 17 | **11.7** | 12.8 | **–** | – |
| Cash and deposits | 17 | **156.0** | 94.2 | **0.3** | 0.3 |
| | | **719.0** | 718.6 | **0.3** | 131.3 |
| **Creditors (amounts falling due within one year)** | | | | | |
| Loan capital and borrowings | 18 | **(42.6)** | (126.9) | **–** | – |
| Other | 20 | **(341.3)** | (458.6) | **(340.5)** | (77.7) |
| | | **(383.9)** | (585.5) | **(340.5)** | (77.7) |
| **Net current assets (liabilities)** | | **335.1** | 133.1 | **(340.2)** | 53.6 |
| **Total assets less current liabilities** | | **1,174.8** | 2,465.4 | **1,357.4** | 2,434.4 |
| **Creditors (amounts falling due after more than one year)** | | | | | |
| Loan capital and borrowings | 18 | **(445.0)** | (1,142.0) | **–** | – |
| Other | 20 | **(48.6)** | (38.5) | **–** | – |
| | | **(493.6)** | (1,180.5) | **–** | – |
| **Provisions for liabilities and charges** | 21 | **(109.0)** | (87.5) | **(2.5)** | – |
| | | **572.2** | 1,197.4 | **1,354.9** | 2,434.4 |
| **Capital and reserves** | | | | | |
| Called up share capital | 23 | **104.6** | 122.8 | **104.6** | 122.8 |
| Share premium account | 23 | **8.5** | 8.5 | **8.5** | 8.5 |
| Capital redemption reserve | 23 | **24.8** | 6.6 | **24.8** | 6.6 |
| Other reserves | 23 | **418.4** | 1,045.9 | **1,217.0** | 2,296.5 |
| **Shareholders' funds** | | **556.3** | 1,183.8 | **1,354.9** | 2,434.4 |
| Equity interests | | **334.1** | 963.8 | **1,132.7** | 2,214.4 |
| Non-equity interests | | **222.2** | 220.0 | **222.2** | 220.0 |
| **Equity minority interests** | 24 | **15.9** | 13.6 | **–** | – |
| | | **572.2** | 1,197.4 | **1,354.9** | 2,434.4 |

These accounts were approved by the Board on 1 March 2001 and signed on its behalf by:
Sir Denys Henderson, Chairman
Ian Dyson, Finance Director

## GROUP CASH FLOW STATEMENT
for the year ended 31 December 2000

| | Note | 2000 £m | 1999 £m |
|---|---|---|---|
| **Net cash inflow from operating activities** | 25 | **358.0** | 315.8 |
| **Distributions from joint ventures and associated undertakings** | | **2.6** | 16.3 |
| **Returns on investment and servicing of finance** | | | |
| Interest received | | **8.3** | 9.3 |
| Interest paid | | **(96.5)** | (108.5) |
| Dividends paid to preference shareholders | | **(18.8)** | (18.7) |
| Dividends paid to minority shareholders in subsidiary undertakings | | **(0.3)** | (0.3) |
| | | **(107.3)** | (118.2) |
| **Taxation received (paid) (net)** | | **12.8** | (51.5) |
| **Capital expenditure and financial investment** | | | |
| Purchase of tangible fixed assets | | **(144.6)** | (385.0) |
| Purchase of investments | | **(6.2)** | (3.7) |
| Sale of fixed assets and assets held for disposal | | **20.1** | 31.2 |
| | | **(130.7)** | (357.5) |
| **Acquisitions and disposals** | | | |
| Purchase of subsidiaries | 26 | **(25.9)** | (10.6) |
| Cash acquired with subsidiaries | | **0.2** | – |
| Sale of businesses and investments | 27 | **1,219.3** | 378.1 |
| Cash and overdrafts disposed of with businesses | | **(6.4)** | (3.2) |
| Investment in joint ventures and associated undertakings | | **(13.4)** | (81.8) |
| | | **1,173.8** | 282.5 |
| **Ordinary dividends paid** | | **(83.7)** | (161.5) |
| **Cash inflow (outflow) before use of liquid resources and financing** | | **1,225.5** | (74.1) |
| **Management of liquid resources** | 28,29 | **1.1** | 3.3 |
| **Financing** | | | |
| Purchase of Ordinary share capital | | **(304.3)** | – |
| Payment to minorities | | **(1.3)** | 0.2 |
| **Changes in debt and lease financing** | | | |
| Debt due within one year: | | | |
| repayment of US dollar private placements | | **(19.7)** | (52.2) |
| repayment of other short term loans and borrowings | | **(133.2)** | (24.4) |
| net drawdown (repayment) on sterling syndicated facilities | | **(397.8)** | – |
| net drawdown (repayment) on US dollar syndicated facilities | | **(200.6)** | – |
| Debt due after more than one year: | | | |
| net drawdown (repayment) on sterling syndicated facilities | | **–** | 212.5 |
| net drawdown (repayment) on US dollar syndicated facilities | | **–** | 28.7 |
| repayment of US dollar private placements | | **(74.8)** | (95.9) |
| net movements on other long term facilities | | **(3.1)** | 19.7 |
| Capital element of finance lease rental payments | | **(19.4)** | (10.2) |
| Net cash (outflow) inflow from financing | 28, 29 | **(1,154.2)** | 78.4 |
| **Increase in cash** | 28, 29 | **72.4** | 7.6 |

## GROUP RECOGNISED GAINS AND LOSSES
for the year ended 31 December 2000

| | **2000 £m** | 1999 £m |
|---|---|---|
| Profit (loss) for the financial year | **(320.4)** | 68.1 |
| Currency translation differences on foreign currency net investments | **(5.1)** | (8.7) |
| Tax on exchange adjustments offset in reserves | **(17.9)** | – |
| **Total recognised gains and losses for the year** | **(343.4)** | 59.4 |

## MOVEMENTS IN SHAREHOLDERS' FUNDS
for the year ended 31 December 2000

| | **2000 £m** | 1999 £m |
|---|---|---|
| Profit (loss) for the financial year | **(320.4)** | 68.1 |
| Dividends payable excluding provision for redemption premium | **(87.9)** | (111.5) |
| Retained loss for the year | **(408.3)** | (43.4) |
| Other recognised gains and losses (net) | **(23.0)** | (8.7) |
| Purchase of Ordinary share capital | **(304.3)** | – |
| Goodwill realised upon disposal | **108.1** | 6.0 |
| **Net movement in shareholders' funds** | **(627.5)** | (46.1) |
| Opening shareholders' funds at 1 January | **1,183.8** | 1,229.9 |
| Closing shareholders' funds at 31 December | **556.3** | 1,183.8 |

# ACCOUNTING POLICIES

## 1 Basis of preparation

The accounts are prepared under the historical cost convention, and comply with applicable accounting standards on a basis consistent with the previous year except for the changes detailed below. The Group's profit and loss account and balance sheet include the accounts of the Company and its subsidiary undertakings, and the Group's share of profits or losses and reserves of its joint ventures and associated undertakings. The profits or losses of subsidiary undertakings acquired or sold during the period are included as from or up to the dates on which control passed. All business combinations are accounted for using the acquisition accounting method.

### Changes in accounting policy

The Group has adopted Financial Reporting Standard ("FRS") 15 ("Tangible Fixed Assets"). In previous years, no depreciation was charged in respect of certain operating buildings held as freehold or with leasehold interest in excess of 20 years. Following the implementation of FRS 15, depreciation is now charged on these assets. This has resulted in an additional depreciation charge during the year of £16.7m (1999 – £Nil). If the standard had been implemented in 1999, the reported profits would have been £18.2m lower in the year to 31 December 1999.

The Group has also adopted FRS 16 ("Current Tax"). There has been no material effect on the current or prior year figures in respect of this change.

## 2 Foreign currency

Revenues, costs and cash flows of overseas undertakings are included in the Group profit and loss account at average rates of exchange. Assets and liabilities denominated in foreign currencies are translated into sterling at rates of exchange ruling at the balance sheet date except where a forward exchange contract has been arranged when the contracted rate is used. Exchange differences on the retranslation of opening net assets and results for the period of foreign subsidiary undertakings are dealt with through reserves net of differences on related foreign currency borrowings. Other gains and losses arising from foreign currency transactions, including trading, are included in the consolidated profit and loss account.

The principal exchange rates affecting the Group were:

| | **2000** | | 1999 | |
|---|---|---|---|---|
| | **Year end** | **Average** | Year end | Average |
| United States dollar | **1.49** | **1.50** | 1.61 | 1.62 |
| Canadian dollar | **2.24** | **2.21** | 2.34 | 2.40 |
| Euro | **1.59** | **1.66** | 1.61 | 1.53 |

## 3 Income recognition

Turnover consists of sales of goods and services and is generally recognised as goods are shipped or services are rendered. Turnover for casinos includes the gaming win before deduction of gaming duty.

## 4 Deferred expenditure

Deferred expenditure comprises (a) advance payments on supply contracts and (b) other amounts deferred including rights acquired. The expenditure is included in prepayments and is written off over periods of three to eight years, the period over which the related benefits are expected to arise.

## 5 Goodwill

Goodwill arising on acquisitions made before 31 December 1997 has been written off directly to reserves. Goodwill arising on acquisitions subsequent to 31 December 1997 has been capitalised and is being amortised on a straight line basis over its useful economic life.

## 6 Stocks

Stocks include work in progress and are valued at the lower of cost (including an appropriate proportion of overhead) and net realisable value.

## 7 Tangible fixed assets

Freehold properties are depreciated on a straight line basis over 100 years or their useful life, if less. Leased properties are depreciated over the lesser of 100 years, their useful life or the term of the lease. No depreciation is provided on freehold land. Expenditure on major refurbishment of properties is amortised over periods of between three and 15 years. Other fixed assets are depreciated mainly at rates between 5% and 33% per annum on a straight line basis.

Interest costs that are directly attributable to the construction of a tangible fixed asset are capitalised as part of the cost of the asset concerned. Pre-opening costs are expensed as incurred.

Casino properties are depreciated over the useful economic life of the physical properties to their residual values. Both the initial carrying amount and residual value take into account the trading potential of the property with the benefit of the casino licences. In view of the high residual values, casino properties are reviewed annually for potential impairment.

### 8 Leased assets

Assets acquired under finance leases are included in tangible fixed assets. Depreciation is provided at rates designed to write-off the cost in equal annual amounts over the shorter of the estimated useful lives of the assets (which are the same as those for assets purchased outright) and the period of the leases. The capital element of future rentals is treated as a liability and the interest element is charged to the profit and loss account over the period of the leases in proportion to the balances outstanding. Operating lease payments are charged to the profit and loss account as incurred.

### 9 Pensions

The pension costs relating to the UK defined benefit scheme are assessed in accordance with the advice of a qualified actuary using the projected unit method. Actuarial surpluses and deficiencies are amortised on a straight line basis over the expected average remaining service lives of the employees. The pension costs relating to the UK defined contribution scheme represent the contributions payable by the Group. Overseas schemes are accounted for in accordance with local conditions and practice such that the costs are charged against profits on a systematic basis over the service lives of the employees.

### 10 Taxation

Current taxation is applied to taxable profits at the rates ruling in the relevant country. Deferred taxation is provided in respect of timing differences to the extent that it is probable that a liability will arise in the foreseeable future. Prior to its abolition, Advance Corporation Tax on dividends paid was set off against United Kingdom current liabilities and deferred tax provisions to the extent that it was considered recoverable.

### 11 Financial instruments

Derivative instruments that may be utilised by the Group are forward interest rate swaps and caps, cross currency swaps, forward starting swaps, forward rate agreements, interest rate swap options, forward foreign exchange contracts and currency options.

Derivative instruments that are currently utilised by the Group are forward starting interest rate swaps and forward foreign exchange contracts. These instruments are used to manage interest rate and foreign exchange risk.

The Group's forward starting swaps have all been closed. Any payments received or paid as a result of entering into these transactions have been included in the finance costs of the instrument to which they relate and are being amortised over the life of the associated instrument.

The forward foreign exchange contracts are used to hedge future transaction flows. The resulting gains and losses are recognised as they arise and offset against gains and losses in the related underlying exposure.

If a legally enforceable right exists to set off recognised amounts of financial assets and liabilities, which are determinable monetary amounts, and the Group intends to settle on a net basis, the relevant financial assets and liabilities are offset.

## 1 SEGMENTAL INFORMATION

| | Turnover | | Profit (loss) before exceptional items | | Profit (loss) after exceptional items | | Capital employed (c) | |
|---|---|---|---|---|---|---|---|---|
| | **2000 £m** | 1999 £m | **2000 £m** | 1999 £m | **2000 £m** | 1999 £m | **2000 £m** | 1999 £m |
| **Analysis by division** (a) | | | | | | | | |
| Gaming | **442.6** | 405.9 | **82.4** | 69.1 | **81.9** | 67.3 | **538.4** | 582.1 |
| Hard Rock | **260.2** | 239.9 | **46.3** | 41.5 | **46.3** | (15.6) | **759.1** | 702.1 |
| Deluxe | **651.1** | 636.8 | **73.3** | 84.4 | **28.6** | 75.3 | **625.7** | 608.4 |
| US Holidays | **50.2** | 47.4 | **10.0** | 8.5 | **10.0** | 6.5 | **79.2** | 76.5 |
| Central costs and other | **–** | – | **(8.9)** | (7.5) | **(7.2)** | (23.1) | **–** | – |
| Continuing operations | **1,404.1** | 1,330.0 | **203.1** | 196.0 | **159.6** | 110.4 | **2,002.4** | 1,969.1 |
| Discontinued operations (b) | **389.3** | 711.4 | **59.7** | 111.0 | **59.7** | 98.2 | **–** | 1,185.0 |
| | **1,793.4** | 2,041.4 | **262.8** | 307.0 | **219.3** | 208.6 | **2,002.4** | 3,154.1 |
| Share of investments (d) | | | | | | | | |
| Universal Studios Escape | | | **(11.5)** | (2.8) | **(12.2)** | (45.8) | **–** | 347.5 |
| Other | | | **2.1** | 2.7 | **(11.0)** | – | **56.3** | 57.9 |
| | | | **(9.4)** | (0.1) | **(23.2)** | (45.8) | **56.3** | 405.4 |
| Total capital employed | | | | | | | **2,058.7** | 3,559.5 |
| Non-operating items (net) | | | | | **(449.5)** | 32.5 | | |
| Group interest payable and other similar charges | | | **(67.4)** | (79.2) | **(87.7)** | (87.7) | | |
| Profit (loss) on ordinary activities before tax | | | **186.0** | 227.7 | **(341.1)** | 107.6 | | |

(a) Inter-segmental turnover is not material.
(b) Discontinued operations comprise Nightscene, Odeon Cinemas, Pinewood Studios, Tom Cobleigh and UK Holidays.
(c) Capital employed comprises net operating assets plus purchased goodwill.
(d) Share of investments' profit is defined as share of profit before tax. Share of investments' capital employed is the carrying value in the Group's balance sheet plus purchased goodwill. Investments comprise joint ventures, associates and other investments.

## 1 SEGMENTAL INFORMATION CONTINUED

| | Depreciation | | Investment expenditure | | Net cash flow before financing | | Net assets | |
|---|---|---|---|---|---|---|---|---|
| | **2000 £m** | 1999 £m | **2000 £m** | 1999 £m | **2000 £m** | 1999 £m | **2000 £m** | 1999 £m |
| **Analysis by division** | | | | | | | | |
| Gaming | **46.5** | 44.0 | **49.5** | 45.3 | **105.2** | 79.1 | **381.3** | 425.1 |
| Hard Rock | **11.7** | 11.8 | **13.9** | 31.8 | **36.5** | 4.6 | **161.7** | 141.8 |
| Deluxe | **35.1** | 33.6 | **36.2** | 45.1 | **49.8** | (38.0) | **395.9** | 392.4 |
| US Holidays | **0.6** | 0.4 | **1.7** | 0.9 | **13.5** | 14.9 | **48.8** | 48.9 |
| Central costs and other | **0.3** | 0.5 | **(1.9)** | 0.2 | **(26.9)** | (14.1) | **–** | – |
| Continuing operations | **94.2** | 90.3 | **99.4** | 123.3 | **178.1** | 46.5 | **987.7** | 1,008.2 |
| Discontinued operations | **39.8** | 49.1 | **73.0** | 282.2 | **1,061.0** | 51.4 | **–** | 1,091.3 |
| | **134.0** | 139.4 | **172.4** | 405.5 | **1,239.1** | 97.9 | **987.7** | 2,099.5 |
| Investments | | | | | | | | |
| Universal Studios Escape | | | **13.4** | 81.8 | **168.8** | (55.1) | **–** | 331.7 |
| Rank Xerox | | | **–** | – | **–** | 218.7 | **–** | – |
| Universal Studios Japan | | | **6.2** | 3.7 | **(6.2)** | (14.2) | **56.3** | 58.0 |
| | | | **19.6** | 85.5 | **162.6** | 149.4 | **56.3** | 389.7 |
| | | | **192.0** | 491.0 | **1,401.7** | 247.3 | **1,044.0** | 2,489.2 |
| Interest paid (net) | | | | | **(88.2)** | (99.2) | | |
| Tax and dividends | | | | | **(90.0)** | (232.0) | **(76.7)** | (84.3) |
| Other non-operating assets (net) | | | | | | | **(82.8)** | (49.7) |
| Acquired debt and other non-cash items | | | **(2.1)** | (9.9) | **2.0** | 9.8 | | |
| Goodwill | | | | | | | **7.6** | 4.1 |
| Net debt | | | | | | | **(319.9)** | (1,161.9) |
| | | | **189.9** | 481.1 | **1,225.5** | (74.1) | **572.2** | 1,197.4 |

| | Turnover by origin | | Operating profit by origin: Before exceptional items | | Operating profit by origin: After exceptional items | | Net assets | |
|---|---|---|---|---|---|---|---|---|
| | **2000 £m** | 1999 £m | **2000 £m** | 1999 £m | **2000 £m** | 1999 £m | **2000 £m** | 1999 £m |
| **Geographical analysis** | | | | | | | | |
| United Kingdom | **531.3** | 480.6 | **77.7** | 72.0 | **79.6** | 52.3 | **481.7** | 483.4 |
| North America | **743.6** | 735.9 | **103.9** | 103.8 | **59.7** | 44.3 | **430.9** | 462.6 |
| Rest of the World | **129.2** | 113.5 | **21.5** | 20.2 | **20.3** | 13.8 | **75.1** | 62.2 |
| Continuing operations | **1,404.1** | 1,330.0 | **203.1** | 196.0 | **159.6** | 110.4 | **987.7** | 1,008.2 |

Turnover by destination is not materially different from turnover by origin.

## 2 TURNOVER AND OPERATING PROFIT

| | 2000 Continuing operations £m | 2000 Discontinued operations £m | 2000 Total £m | 1999 Continuing operations £m | 1999 Discontinued operations £m | 1999 Total £m |
|---|---|---|---|---|---|---|
| Turnover | **1,404.1** | **389.3** | **1,793.4** | 1,330.0 | 711.4 | 2,041.4 |
| Cost of sales | **(1,060.2)** | **(250.9)** | **(1,311.1)** | (1,016.6) | (499.8) | (1,516.4) |
| Gross profit | **343.9** | **138.4** | **482.3** | 313.4 | 211.6 | 525.0 |
| Distribution costs | **(21.5)** | **(68.6)** | **(90.1)** | (44.1) | (62.1) | (106.2) |
| Administrative expenses | **(171.8)** | **(8.9)** | **(180.7)** | (169.5) | (53.9) | (223.4) |
| Other operating income | **9.0** | **(1.2)** | **7.8** | 10.6 | 2.6 | 13.2 |
| Operating profit | **159.6** | **59.7** | **219.3** | 110.4 | 98.2 | 208.6 |
| Exceptional items included above are: | | | | | | |
| In cost of sales | **(41.3)** | **–** | **(41.3)** | (49.6) | (1.2) | (50.8) |
| In distribution costs | **–** | **–** | **–** | (1.4) | (1.2) | (2.6) |
| In administrative expenses | **(2.2)** | **–** | **(2.2)** | (34.6) | (10.4) | (45.0) |

The total figures for continuing operations in 2000 include the following amounts relating to acquisitions: cost of sales £12.0m and administrative expenses £2.0m.

| | 2000 £m | 1999 £m |
|---|---|---|
| Operating profit is stated after charging the following items: | | |
| In normal trading | | |
| Depreciation of tangible fixed assets | **134.0** | 139.4 |
| Operating lease payments – land and buildings | **71.7** | 58.0 |
| Operating lease payments – plant and machinery | **2.9** | 3.8 |
| In exceptional items | | |
| Restructuring charges | **13.6** | 51.8 |
| Impairment of assets | **29.9** | 20.6 |
| Hard Rock charges | **–** | 26.0 |

In April 2000, the Group announced plans to restructure the Deluxe Video business in the USA – this resulted in an exceptional charge of £41.3m comprising redundancy costs of £4.7m, costs associated with the closure of facilities of £6.7m and certain asset write-offs totalling £29.9m.

Also included within restructuring charges is £2.2m relating to costs associated with the restructuring announced in August 1999 which did not qualify to be recorded in 1999 under FRS 12.

| | 2000 £m | 1999 £m |
|---|---|---|
| During the year the Company's auditors, PricewaterhouseCoopers, earned the following fees: | | |
| Audit fees | | |
| United Kingdom | **0.4** | 0.6 |
| Overseas | **0.5** | 0.6 |
| | **0.9** | 1.2 |
| Non-audit services | | |
| United Kingdom | **2.6** | 1.5 |
| Overseas | **0.1** | 1.1 |
| | **2.7** | 2.6 |
| | **3.6** | 3.8 |
| Non-audit services were as follows: | | |
| Transaction services, stock exchange and other audit related work | **1.6** | 1.3 |
| Taxation advice | **0.4** | 0.4 |
| Consultancy and advisory services | **0.7** | 0.9 |
| | **2.7** | 2.6 |

The auditors' remuneration for the Company was £50,000 (1999 – £50,000).

It is the Group's policy to employ PricewaterhouseCoopers on assignments additional to their statutory audit duties where their expertise and experience with the Group are important, principally in the areas of transaction services, stock exchange transactions and tax advice. The Group's policy is, where appropriate, that work is put out to competitive tender. The Audit Committee monitors the relationship with PricewaterhouseCoopers, including the level of non-audit fees.

## 3 NON-OPERATING ITEMS

| | 2000 £m | 1999 £m |
|---|---|---|
| Profit on disposal of continuing operations | – | 7.2 |
| Loss (including provision for loss) on disposal of continuing operations (after deducting goodwill previously written off of £Nil (1999 – £Nil)) | **(0.6)** | (7.7) |
| | **(0.6)** | (0.5) |
| Loss (profit) on disposal of discontinued operations (after deducting goodwill previously written off of £108.1m (1999 – £6.0m)) | **(448.9)** | 33.0 |
| Non-operating items before tax | **(449.5)** | 32.5 |

The exceptional tax credit attributable to non-operating items is £65.7m (1999 – £Nil). Further details on the disposal of discontinued operations are given in note 27.

## 4 NET INTEREST PAYABLE AND SIMILAR CHARGES

| | 2000 £m | 1999 £m |
|---|---|---|
| Interest payable on bank loans and overdrafts | **26.7** | 33.8 |
| Interest payable on other loans | **45.1** | 68.1 |
| Finance charges on finance leases | **1.8** | 1.5 |
| Interest capitalised in period | – | (10.8) |
| Amortisation of interest capitalised | – | 2.0 |
| Release of discount on provisions | **1.8** | 1.8 |
| Interest payable and other similar charges | **75.4** | 96.4 |
| Interest receivable from deposits and current asset investments | **(8.0)** | (9.4) |
| Release of discount on deferred disposal proceeds | – | (7.8) |
| | **67.4** | 79.2 |
| Exceptional loss on prepayment of private placement debt | **20.3** | 8.5 |
| | **87.7** | 87.7 |

## 5 TAXATION ON PROFIT ON ORDINARY ACTIVITIES

| | 2000 | | | 1999 | | |
|---|---|---|---|---|---|---|
| | **Before exceptional items £m** | **Exceptional items £m** | **Total £m** | Before exceptional items £m | Exceptional items £m | Total £m |
| United Kingdom corporation tax | | | | | | |
| Current | **41.3** | **(52.7)** | **(11.4)** | 35.6 | (6.9) | 28.7 |
| Prior year | **(11.0)** | **(13.0)** | **(24.0)** | 2.8 | – | 2.8 |
| | **30.3** | **(65.7)** | **(35.4)** | 38.4 | (6.9) | 31.5 |
| Overseas tax | | | | | | |
| Current | **11.7** | – | **11.7** | 12.6 | – | 12.6 |
| Prior year | – | – | – | – | (6.3) | (6.3) |
| | **11.7** | – | **11.7** | 12.6 | (6.3) | 6.3 |
| Taxation on share of profits of associated undertakings and joint ventures | – | – | – | – | – | – |
| | **42.0** | **(65.7)** | **(23.7)** | 51.0 | (13.2) | 37.8 |

United Kingdom corporation tax on the profits of the Company and its UK subsidiaries for the year has been provided at 30.0% (1999 – 30.25%). Included in the prior year exceptional tax charge of £13.0m is £40.8m in respect of Advance Corporation Tax no longer considered to be recoverable.

## 6 PROFIT ATTRIBUTABLE TO THE PARENT COMPANY

The loss for the financial year in the accounts of The Rank Group Plc was £687.3m (1999 – profit of £5.4m). As allowed by S. 230 Companies Act 1985, no profit and loss account is presented in respect of The Rank Group Plc.

## 7 DIVIDENDS

| | **2000 £m** | 1999 £m |
|---|---|---|
| **Convertible Redeemable Preference shares** | | |
| Dividends payable for the period | **18.8** | 18.8 |
| Provision for redemption premium | **2.2** | 2.2 |
| | **21.0** | 21.0 |
| **Ordinary shares** | | |
| Interim declared of 4.0p per share (1999 – 4.0p) | **27.8** | 30.8 |
| Final proposed of 8.0p per share (1999 – 8.0p) | **47.2** | 61.9 |
| Release of prior year accrual resulting from share purchase | **(5.9)** | – |
| | **69.1** | 92.7 |

## 8 EARNINGS PER ORDINARY SHARE

Basic earnings per share is calculated by dividing the earnings attributable to Ordinary shareholders by the weighted average number of Ordinary shares in issue during the year, excluding those held in the employee benefit trust which are treated as cancelled.

The Group has two categories of dilutive potential Ordinary shares – those share options granted to employees where the exercise price is less than the average price of the Company's Ordinary shares during the year and the Company's Convertible Redeemable Preference shares. These are at present anti-dilutive.

| | **2000** | | | 1999 | | |
|---|---|---|---|---|---|---|
| | **Before exceptional items** | **Exceptional items** | **Total** | Before exceptional items | Exceptional items | Total |
| Basic and diluted earnings (£m) | **120.0** | **(461.4)** | **(341.4)** | 154.0 | (106.9) | 47.1 |
| Weighted average number of Ordinary shares (m) | | | **695.6** | | | 773.2 |
| Basic and diluted earnings (loss) per Ordinary share | **17.3p** | **(66.4)p** | **(49.1)p** | 19.9p | (13.8)p | 6.1p |

Earnings per share before exceptional items has been calculated to show the impact of exceptional items as these can have a distorting effect on earnings and therefore warrant separate consideration.

## 9 INTANGIBLE FIXED ASSETS

| | **Cost £m** | **Amorti-sation £m** | **Net book amount £m** |
|---|---|---|---|
| Balances at 31 December 1999 | 4.4 | (0.3) | 4.1 |
| New businesses acquired (note 26) | 6.6 | (0.5) | 6.1 |
| Disposals | (2.8) | 0.2 | (2.6) |
| **Balances at 31 December 2000** | **8.2** | **(0.6)** | **7.6** |

Intangible fixed assets consists of goodwill arising on acquisitions since 1 January 1998. It is being amortised straight line over 20 years and the charge for the year was £0.4m (1999 – £0.2m).

## 10 TANGIBLE FIXED ASSETS

| | Land and buildings £m | Fixtures, fittings, plant and machinery £m | Payments on account and assets in course of construction £m | Total £m |
|---|---|---|---|---|
| **Group** | | | | |
| Cost at 31 December 1999 | 1,582.3 | 1,361.5 | 24.6 | 2,968.4 |
| Currency translation adjustment | 13.5 | 23.1 | 0.8 | 37.4 |
| New businesses acquired | 14.1 | 5.8 | – | 19.9 |
| Business disposals | (927.3) | (637.2) | (5.9) | (1,570.4) |
| Additions | 51.2 | 63.6 | 18.2 | 133.0 |
| Disposals | (80.1) | (239.5) | – | (319.6) |
| Transfers including to current assets | (35.1) | 25.0 | (14.3) | (24.4) |
| **Cost at 31 December 2000** | **618.6** | **602.3** | **23.4** | **1,244.3** |
| Depreciation at 31 December 1999 | 307.2 | 722.7 | – | 1,029.9 |
| Currency translation adjustment | 5.0 | 13.7 | – | 18.7 |
| Business disposals | (129.3) | (308.8) | – | (438.1) |
| Disposals | (64.3) | (231.4) | – | (295.7) |
| Depreciation for the year | 41.4 | 92.6 | – | 134.0 |
| Transfers including to current assets | (16.3) | 12.5 | – | (3.8) |
| Provision for impairment | – | 23.5 | – | 23.5 |
| **Depreciation at 31 December 2000** | **143.7** | **324.8** | **–** | **468.5** |
| **Net book amount at 31 December 2000** | **474.9** | **277.5** | **23.4** | **775.8** |
| Net book amount at 31 December 1999 | 1,275.1 | 638.8 | 24.6 | 1,938.5 |

(a) Land with a net book amount of £70.4m (1999 land and buildings – £936.6m) is not depreciated. The net book amount of tangible assets for the Group includes £7.6m (1999 – £19.1m) interest capitalised.

(b) The book amounts for fixtures, fittings, plant and machinery include the following amounts in respect of assets held under finance leases: cost £5.8m (1999 – £36.1m), depreciation £2.6m (1999 – £6.9m), net book amount £3.2m (1999 – £29.2m). The depreciation charge in the year in respect of these assets was £3.0m (1999 – £4.0m).

(c) Provision for impairment represents the write-down to value in use of assets in the Deluxe Video business in the USA (see note 2) and the write-down to realisable value of assets in the Deluxe film laboratory in Toronto.

| | 2000 £m | 1999 £m |
|---|---|---|
| The net book amount of land and buildings comprises | | |
| Freeholds | **263.2** | 837.2 |
| Long leases (over 50 years unexpired) | **114.5** | 322.0 |
| Short leases | **97.2** | 116.0 |
| | **474.9** | 1,275.2 |

## 11 INVESTMENTS IN SUBSIDIARY UNDERTAKINGS

| | Company | | |
|---|---|---|---|
| | Shares at cost £m | Provisions £m | Net book amount £m |
| Balances at 31 December 1999 | 2,780.0 | (400.0) | 2,380.0 |
| Provision | – | (683.0) | (683.0) |
| **Balances at 31 December 2000** | **2,780.0** | **(1,083.0)** | **1,697.0** |

Details of principal subsidiary undertakings are given on page 55. The provision against investments has arisen as a result of the net loss arising from the disposal of businesses during the year together with a review of the carrying value of investments in subsidiary undertakings as at 31 December 2000.

## 12 INTERESTS IN JOINT VENTURES (UNLISTED)

| | Participating interests at cost £m |
|---|---|
| Balances at 31 December 1999 | 14.4 |
| Additions | 1.6 |
| Share of profits after distributions | (0.4) |
| **Balances at 31 December 2000** | **15.6** |

The Group's interests in joint ventures comprise BL Rank Properties Limited ("BLRP") and Entertainment Transportation Specialists, Inc. ("ETS"). The Group owns 100% of the "A" shares in BLRP which constitute 50% of the voting share capital with the balance held by The British Land Company PLC. The principal activity of the BLRP group is property investment.

On 28 June 2000, for a cash consideration of US$2.4m (£1.6m), the Group acquired 25% of the common stock of ETS, a Californian corporation, and was granted options to acquire the remaining 75% of the common stock. The principal activity of ETS is the management of film studios' inventory of film prints and the physical distribution of release prints and trailers.

| | **2000 £m** | 1999 £m |
|---|---|---|
| **Share of retained profit for the period** | | |
| Share of profits less losses before taxation | **2.1** | 2.3 |
| Dividends and distributions receivable by the Group | **(2.5)** | (2.3) |
| Amounts retained attributable to the Group | **(0.4)** | – |

## 13 INTERESTS IN ASSOCIATED UNDERTAKINGS (UNLISTED)

| | Group £m |
|---|---|
| Balances at 31 December 1999 | 354.6 |
| Currency translation adjustment | 29.2 |
| Additions | 11.9 |
| Retained loss before tax | (25.3) |
| Disposal | (356.9) |
| Transfer to other investments | (12.8) |
| **Balances at 31 December 2000** | **0.7** |

The Group sold its 50% interest in Universal Studios Escape on 28 July 2000 to Blackstone Capital Partners III LP for a cash consideration of US$275m (£182m).

The results for the Universal hotels joint venture have been included in interests in associated undertakings for the period to 30 June 2000. The Group's interest was reclassified as a trade investment with effect from 30 June 2000 as a result of the disposal of the Group's interest in Universal Studios Escape.

| | **2000 £m** | 1999 £m |
|---|---|---|
| **Share of retained profit for the period** | | |
| Share of operating profit | **12.1** | 21.5 |
| Share of net interest payable | **(23.6)** | (23.9) |
| Exceptional write-off of pre-opening expenses | **–** | (45.7) |
| Exceptional write-off of restructuring expenses | **(0.7)** | – |
| Provision for impairment | **(13.1)** | – |
| Retained loss before tax | **(25.3)** | (48.1) |

Details of the Group's investment in the Universal partnerships are set out on page 56.

## 14 OTHER INVESTMENTS

| | Group 2000 £m | Company 2000 £m |
|---|---|---|
| Balances at 1 January | **20.7** | **0.8** |
| Currency translation adjustment | **0.5** | **–** |
| Additions | **6.2** | **–** |
| Transfer from interests in associated undertakings | **12.8** | **–** |
| Disposals | **(0.2)** | **(0.2)** |
| Balances at 31 December | **40.0** | **0.6** |

Other investments comprises £26.6m (1999 – £19.9m) in relation to the Group's investment in Universal Studios Japan, £12.8m in relation to the Group's investment in the Universal Rank Hotel partnerships (transferred from interests in associated undertakings on 30 June 2000) and £0.6m (1999 – £0.8m) in respect of 324,389 (1999 – 390,000) Ordinary shares in The Rank Group Plc held at cost by The Rank Group Employee Benefit Trust.

Dividends on the shares held by the Trust have been waived by the trustees with the exception of one penny in total. The Trust may make such investments in the shares of the Company or otherwise as the trustee or trustees may determine to provide benefits to any eligible employee. The benefits may be provided in the form of shares, cash or otherwise, although any share related benefit will be provided in accordance with an appropriate employee share scheme or bonus scheme of the Company; 65,611 Ordinary shares were awarded following the exercise of options under The Rank Group Long Term Incentive Plan.

## 15 STOCKS

| | Group | |
|---|---|---|
| | 2000 £m | 1999 £m |
| Raw materials and consumables | **21.5** | 20.5 |
| Work in progress | **3.6** | 4.6 |
| Finished goods and goods for resale | **37.8** | 59.4 |
| Completed properties for resale | **2.3** | 4.1 |
| | **65.2** | 88.6 |

## 16 DEBTORS

| | Group | | Company | |
|---|---|---|---|---|
| | 2000 £m | 1999 £m | 2000 £m | 1999 £m |
| **Amounts falling due within one year** | | | | |
| Trade debtors | **152.1** | 180.7 | **–** | – |
| Amounts owed by subsidiary undertakings | **–** | – | **–** | 131.0 |
| Other debtors | **31.8** | 54.3 | **–** | – |
| Assets held for disposal | **21.1** | 3.9 | **–** | – |
| Deferred consideration receivable | **11.9** | 3.8 | **–** | – |
| Prepayments and accrued income | **140.7** | 122.0 | **–** | – |
| Instalment sale debtors | **0.9** | 2.1 | **–** | – |
| Notes receivable | **4.8** | 4.3 | **–** | – |
| | **363.3** | 371.1 | **–** | 131.0 |
| **Amounts falling due after more than one year** | | | | |
| Trade debtors | **–** | 1.4 | **–** | – |
| Other debtors | **12.1** | 7.8 | **–** | – |
| Deferred consideration receivable | **–** | 11.6 | **–** | – |
| Prepayments and accrued income | **68.6** | 87.3 | **–** | – |
| Instalment sale debtors | **4.0** | 9.5 | **–** | – |
| Notes receivable | **38.1** | 34.3 | **–** | – |
| | **122.8** | 151.9 | **–** | – |

## 17 CASH, DEPOSITS AND CURRENT ASSET INVESTMENTS

| | Group | | Company | |
|---|---|---|---|---|
| | **2000 £m** | 1999 £m | **2000 £m** | 1999 £m |
| Cash, current accounts and overnight deposits | **61.8** | 65.9 | **0.3** | 0.3 |
| Term deposits | **94.2** | 28.3 | **–** | – |
| | **156.0** | 94.2 | **0.3** | 0.3 |
| Current asset investments | **11.7** | 12.8 | **–** | – |
| **Cash, deposits and current asset investments** (note 28) | **167.7** | 107.0 | **0.3** | 0.3 |

Current asset investments comprise amounts invested in cash and fixed deposit funds operated by external fund managers. The investments can be converted into cash within seven days. The funds are placed with counterparties with strong credit ratings. Cash, deposits and current asset investments are receiving floating rates of interest in their currency of denomination, with 75% of the total being held in sterling, 15% in US dollars, 7% in euros and the balance in a mix of other currencies.

## 18 LOAN CAPITAL AND BORROWINGS

| | Group | |
|---|---|---|
| | **2000 £m** | 1999 £m |
| Bank overdrafts | **9.3** | 20.6 |
| Bank loans repayable: | | |
| Within one year or on demand | **–** | 0.3 |
| Between one and two years | **–** | 591.3 |
| Between two and five years | **–** | – |
| | **–** | 591.6 |
| Other borrowings repayable: | | |
| Within one year or on demand | **33.3** | 106.3 |
| Between one and two years | **0.8** | 70.5 |
| Between two and five years | **141.1** | 172.6 |
| In five years or more | **266.3** | 250.9 |
| In five years or more – by instalments | **36.8** | 56.4 |
| | **478.3** | 656.7 |
| **Total** | **487.6** | 1,268.9 |
| Secured | **–** | 0.2 |
| Unsecured | **485.6** | 1,249.0 |
| Obligations under finance leases | **2.0** | 19.7 |
| **Total** | **487.6** | 1,268.9 |
| Amounts due within one year or on demand | **42.6** | 126.9 |
| Amounts due after more than one year | **445.0** | 1,142.0 |
| **Loan capital and borrowings** (note 28) | **487.6** | 1,268.9 |

Borrowings of £Nil (1999 – £0.2m) are secured by either fixed or floating charges on various assets and certain subsidiary undertakings.

The analysis of other borrowings repayable above includes obligations under finance leases, of which £1.1m (1999 – £5.9m) expire within one year, £0.7m (1999 – £4.2m) expire between one and two years and £0.2m (1999 – £7.5m) expire between two and five years and £Nil (1999 – £2.1m) expire in five years or more.

### 18 LOAN CAPITAL AND BORROWINGS CONTINUED

Borrowings shown above include:

(a) borrowings repayable by instalments, any instalment of which falls due after five years, totalling £75.6m (1999 – £156.4m), with an average rate of interest payable of 9.83% (1999 – 9.75%);
(b) £125m 7¼% eurosterling bonds redeemable at par in 2008 (issued 1998);
(c) £134m US$200m 6.75% Yankee bonds redeemable at par in 2004 (issued 1997);
(d) £67m US$100m 6.375% Yankee bonds redeemable at par in 2008 (issued 1998); and
(e) £67m US$100m 7.125% bonds redeemable at par in 2018 (issued 1998).

The funding policy of the Group is to maintain a broad portfolio of debt, diversified by source and maturity, and to maintain committed facilities sufficient to cover seasonal peak anticipated borrowing requirements. At 31 December 2000 the Group had £600m available undrawn committed bank facilities (1999 – £423m) of which £600m mature in less than one year (1999 – £Nil), £Nil between one and two years (1999 – £423m) and £Nil in more than two years (1999 – £Nil). Following the year end, the £600m revolving credit facility maturing in July 2001 was cancelled in favour of a replacement £250m revolving credit facility which will mature in 2004.

The Company had no borrowings at 31 December 2000 (1999 – £Nil).

The finance costs of debt instruments are charged to the profit and loss account over the term of the debt at a constant rate on the carrying amount. Such costs include the costs of issue, any discount to face value arising on issue, or any premium payable on maturity.

### 19 FINANCIAL INSTRUMENTS

A description of the policies relating to financial instruments is set out in the Operating and Financial Review on page 17, and also in the Accounting Policies on page 34. Short term debtors and creditors have been excluded from all the following disclosures other than within the currency risk disclosures.

**(a) Interest risk management**
**Financial liabilities**

Some 98% of the Group's gross borrowings is at fixed rates of interest with a weighted average interest rate of 7.4% (1999 – 7.9%) and a weighted average term of 6.8 years (1999 – 6.5 years). At 31 December 2000, the Group's net debt was predominantly denominated in US dollars. In 1997, the Group used forward starting swaps to fix interest rates on long term instruments in advance of the finalisation of such instruments. Profits or losses arising on such swaps were included in the finance costs of the instruments to which they related and are being amortised over the life of the associated instruments.

After taking account of interest rate swaps, the currency and interest rate exposure of gross borrowings as at 31 December 2000 was:

| | | | Fixed rate borrowings | | |
|---|---|---|---|---|---|
| **2000** | **Gross borrowings £m** | **Floating rate borrowings £m** | **Fixed rate borrowings £m** | **Weighted average interest rate %** | **Weighted average time for which rate is fixed years** |
| Sterling | **143.4** | **9.4** | **134.0** | **7.3** | **7.2** |
| US/Canadian dollar | **344.0** | **–** | **344.0** | **7.4** | **6.6** |
| Other currencies (net) | **0.2** | **0.1** | **0.1** | **–** | **–** |
| Net borrowings | **487.6** | **9.5** | **478.1** | **7.4** | **6.8** |

| | | | Fixed rate borrowings | | |
|---|---|---|---|---|---|
| 1999 | Gross borrowings £m | Floating rate borrowings £m | Fixed rate borrowings £m | Weighted average interest rate % | Weighted average time for which rate is fixed years |
| Sterling | 282.8 | 31.6 | 251.2 | 7.8 | 5.0 |
| US/Canadian dollar | 907.8 | 503.2 | 404.6 | 7.9 | 7.5 |
| Other currencies (net) | 78.3 | 77.8 | 0.5 | – | – |
| Net borrowings | 1,268.9 | 612.6 | 656.3 | 7.9 | 6.5 |

In addition to the above, the Group's preference shares of £227.3m (1999 – £227.4m) meet the definition of financial liabilities. These sterling denominated financial liabilities are fixed rate liabilities with a weighted average interest rate of 8.3% (1999 – 8.3%) and a weighted average period over which the rate is fixed of 6.6 years (1999 – 7.6 years).

The Group's provisions of £33.8m (1999 – £48.2m) for vacant leasehold properties (note 21) also meet the definition of financial liabilities. These financial liabilities are considered to be floating rate financial liabilities. This is because in establishing the provisions, the cash flows have been discounted using a discount rate which is re-appraised at each half-yearly reporting date to ensure it reflects current market assessments of the time value of money and the risks specific to the liability.

## 19 FINANCIAL INSTRUMENTS CONTINUED

**Financial assets**

At 31 December 2000, the Group held cash and investments of £124.9m (1999 – £89.3m) in sterling, £26.3m (1999 – £7.4m) in US/Canadian dollars and £16.5m (1999 – £10.3m) in other currencies.

Floating rate cash earns interest based on relevant LIBID equivalents and investments earn interest according to the performance of the funds in which they are invested.

In addition, the Group held £42.1m (1999 – £43.8m) of instalment sale debtors and notes receivable after one year denominated in dollars. Of these £22.0m (1999 – £28.0m) are at fixed rates of interest with a weighted average rate of 13.9% and a weighted average period over which the rate is fixed of 5.5 years (1999 – 6.0 years). The remainder are at variable rates with a weighted average rate of 10.5% (1999 – 10.6%) and a weighted average period to maturity of 10 years (1999 – 11 years).

### (b) Maturity of financial liabilities

The maturity of loan capital and borrowings is given in note 18 above. The Company's preference shares of £227.3m (1999 – £227.4m) have a final redemption date of 2007.

For other financial liabilities, note 21 gives an indication of the nature of the underlying liabilities which in general cover a period in excess of five years from the balance sheet date.

### (c) Exchange risk management

After taking into account the effect of forward exchange contracts, there are no material net monetary assets/liabilities of Group companies denominated in currencies other than the relevant Group company's own functional currency.

The Group operates a prudent hedging policy relating to its cross currency business trading cash flows. Currency exposures are netted by currency and hedged forward for up to five years using forward foreign exchange contracts. At the year end at least 70% of anticipated core currency transaction exposures for the following 12 months had been hedged.

The estimated current value of the foreign exchange forward contracts entered into to hedge future transaction flows and on-balance sheet exposures is set out below based on quoted market prices.

| | **Book value 2000 £m** | **Current value 2000 £m** | Book value 1999 £m | Current value 1999 £m |
|---|---|---|---|---|
| Foreign exchange forward rate contracts | **–** | **(7.4)** | – | 1.4 |
| Foreign currency swaps | **0.2** | **0.2** | 0.6 | 0.6 |

### (d) Fair values

The estimated fair values of the Group's financial assets and financial liabilities at 31 December 2000 and 1999 are set out below. The fair value of quoted borrowings is based on year end mid-market quoted prices. The fair values of other borrowings and the derivative financial instruments are estimated by discounting the future cash flows to net present values using appropriate market rates prevailing at the year end.

Primary financial instruments held or issued to finance the Group's operations:

| | **Net carrying amount 2000 £m** | **Fair value 2000 £m** | Net carrying amount 1999 £m | Fair value 1999 £m |
|---|---|---|---|---|
| Short term financial liabilities and current portion of long term borrowings | **(42.6)** | **(43.0)** | (126.9) | (126.9) |
| Long term borrowings | **(445.0)** | **(415.4)** | (1,142.0) | (1,118.7) |
| Cash at bank and liquid investments | **167.7** | **167.7** | 107.0 | 107.0 |
| Other financial assets | **42.1** | **42.1** | 43.8 | 43.8 |
| Preference shares | **(227.3)** | **(230.2)** | (227.4) | (234.2) |
| Other financial liabilities | **(33.8)** | **(33.8)** | (48.2) | (48.2) |

The difference between net carrying amount and estimated fair value reflects unrealised gains or losses inherent in the instruments based on valuations at 31 December 2000. The volatile nature of the markets means that values at any subsequent date could be significantly different from the values reported above.

## 19 FINANCIAL INSTRUMENTS CONTINUED

**(e) Hedges**

As explained in the Operating and Financial Review on page 17, the Group's policy is to hedge the following exposures:

– Interest rate risk, using interest and currency swaps. (There were no interest rate swaps outstanding at the year end.)

– Currency risk, using forward foreign currency contracts for foreign currency receipts and payments. Forward foreign currency contracts are also used for currency exposures on future year's forecasted sales.

The table below shows the extent to which the Group has off-balance sheet (unrecognised) and on-balance sheet (deferred) gains and losses in respect of financial instruments used as hedges at the beginning and end of the year. It also shows the amount of such gains and losses which have been included in the profit and loss account for the year and those gains and losses which are expected to be included in next year's or later profit and loss accounts.

All the gains and losses on the hedging instruments are expected to be matched by losses and gains on the hedged transactions or positions.

The Group used forward starting swaps to fix interest rates on long term instruments in advance of the finalisation of such instruments. Any profits or losses arising on such swaps were included in the finance costs of the instrument to which they related and are being amortised over the life of the associated instrument. Consequently, the carrying value of the relevant asset or borrowing effectively includes the gain or loss on the hedging instrument. Such gains and losses are treated as deferred for the purpose of the table below:

| | | **Unrecognised** | | | Deferred | |
|---|---|---|---|---|---|---|
| | **Gains £m** | **Losses £m** | **Total net gains (losses) £m** | Gains £m | Losses £m | Total net gains (losses) £m |
| Gains and losses on hedges at 1 January 2000: | **7.4** | **(6.0)** | **1.4** | 0.6 | (5.6) | (5.0) |
| Arising in previous years included in 2000 income | **–** | **–** | **–** | (0.1) | 1.1 | 1.0 |
| Gains and losses not included in 2000 income: | | | | | | |
| Arising before 1 January 2000 | **7.4** | **(6.0)** | **1.4** | 0.5 | (4.5) | (4.0) |
| Arising in 2000 on pre 1 January 2000 contracts | **(7.4)** | **1.6** | **(5.8)** | – | – | – |
| Arising in 2000 on 2000 contracts | **–** | **(3.0)** | **(3.0)** | – | (0.2) | (0.2) |
| Gains and losses on hedges at 31 December 2000 | **–** | **(7.4)** | **(7.4)** | 0.5 | (4.7) | (4.2) |
| of which: | | | | | | |
| Gains and losses expected to be included in 2001 income | **–** | **(3.6)** | **(3.6)** | 0.1 | (0.7) | (0.6) |
| Gains and losses expected to be included in 2002 income or later | **–** | **(3.8)** | **(3.8)** | 0.4 | (4.0) | (3.6) |

**(f) Financial instruments held for trading purposes**

The Group does not trade in financial instruments.

**(g) Credit risk**

The counterparties to the forward exchange contracts and term deposits are major international financial institutions with strong credit ratings. The Group continually monitors its positions and the credit ratings of its counterparties.

## 20 OTHER CREDITORS

| | Group 2000 £m | Group 1999 £m | Company 2000 £m | Company 1999 £m |
|---|---|---|---|---|
| **Amounts falling due within one year** | | | | |
| Payments received on account | **4.1** | 13.0 | **–** | – |
| Amounts owed to subsidiary undertakings | **–** | – | **277.0** | – |
| Trade creditors | **86.4** | 123.8 | **–** | – |
| United Kingdom corporation tax and overseas taxation | **3.8** | 7.5 | **2.3** | 2.4 |
| Other tax and social security | **13.0** | 24.4 | **–** | – |
| Other creditors | **40.9** | 49.1 | **0.4** | – |
| Accruals and deferred income | **138.0** | 171.1 | **5.7** | 5.6 |
| Accrued dividends | **7.8** | 7.8 | **7.8** | 7.8 |
| Proposed final dividend on Ordinary shares | **47.3** | 61.9 | **47.3** | 61.9 |
| | **341.3** | 458.6 | **340.5** | 77.7 |
| **Amounts falling due after more than one year** | | | | |
| Other creditors | **7.9** | 7.4 | **–** | – |
| Accruals and deferred income | **12.7** | 17.8 | **–** | – |
| Taxation | **28.0** | 13.3 | **–** | – |
| | **48.6** | 38.5 | **–** | – |

## 21 PROVISIONS FOR LIABILITIES AND CHARGES

| | Acquisition provisions £m | Onerous contracts £m | Restructuring costs £m | Hard Rock £m | Provisions on disposals £m | Other £m | Total £m |
|---|---|---|---|---|---|---|---|
| **Group** | | | | | | | |
| Balances at 31 December 1999 | 4.1 | 48.2 | 15.2 | 12.6 | – | 7.4 | 87.5 |
| Currency translation adjustment | – | 0.4 | 0.3 | 0.9 | – | – | 1.6 |
| Profit and loss account | | | | | | | |
| – operating charge (release) | – | (0.9) | 0.5 | – | – | 1.0 | 0.6 |
| – exceptional charge (release) | – | (0.5) | 13.2 | – | (2.6) | – | 10.1 |
| – non-operating items | – | 0.4 | – | – | 76.3 | 1.6 | 78.3 |
| Net interest: release of discount | – | 1.6 | – | – | 0.2 | – | 1.8 |
| Utilised in the year | (2.8) | (15.4) | (22.8) | (13.5) | (10.8) | (5.6) | (70.9) |
| **Balances at 31 December 2000** | **1.3** | **33.8** | **6.4** | **–** | **63.1** | **4.4** | **109.0** |

| | Other £m |
|---|---|
| **Company** | |
| Balances at 31 December 1999 | – |
| Profit and loss account – non-operating items | 2.5 |
| **Balances at 31 December 2000** | **2.5** |

**Onerous contracts**
The Group is party to a number of leasehold property contracts. Provision has been made against those leases where the property is now vacant and the unavoidable costs under the lease exceed the economic benefit expected to be derived from potential sub-letting arrangements. The provision made in the year includes costs relating to properties which have become surplus to requirements as a result of the restructuring programme. The provision principally relates to cash flows arising over the next 20 years.

**Restructuring**
The balance included in restructuring provisions at the beginning of the year related to the planned reduction in headcount across all businesses announced in 1999. An additional charge has been incurred during 2000 in relation to costs which did not qualify to be recorded in 1999 under FRS 12.

Additional provisions have been made during the year principally for the restructuring of the Deluxe Video business in the USA, which was announced in April 2000 (see note 2 for further details). The remaining provisions are expected to be utilised within the next two years.

## 21 PROVISIONS FOR LIABILITIES AND CHARGES CONTINUED

**Hard Rock**

The provision held at the beginning of the year related to the estimated cost of terminating the Group's contractual arrangement with the National Basketball Association. This provision has been fully utilised in the year.

**Provisions on disposals**

The provision relates to the disposal of Nightscene, Odeon Cinemas, Pinewood Studios, Tom Cobleigh and UK Holidays. Estimated costs include redundancy, insurance claims, provision for potential warranty claims and working capital adjustments as prescribed in the individual sales contracts.

The redundancy costs and working capital adjustments are expected to be utilised within the next financial year and insurance claims are likely to be utilised within three to five years of the balance sheet date. The utilisation of provisions made against individual warranties is likely to vary over the next few years.

**Other provisions**

Other provisions include a provision relating to a number of legal claims which have been made against the Group. Notwithstanding the intention of the Directors to defend vigorously these claims, provisions have been made in respect of the costs associated with defending them. It is not possible to determine the timing of these costs. Having obtained legal advice and on the basis of the information available, the Directors believe that the provision made represents their best estimate of the associated costs and that it is unlikely that these disputes will have a material effect on the Group's financial position.

## 22 DEFERRED TAXATION

| | Provided | | Not recognised | |
|---|---|---|---|---|
| | **2000 £m** | 1999 £m | **2000 £m** | 1999 £m |
| **Group** | | | | |
| Capital allowances | **–** | – | **(21.2)** | (26.8) |
| Other timing differences | **–** | – | **1.0** | – |
| | **–** | – | **(20.2)** | (26.8) |

The above figures exclude taxation payable in the event of the accumulated reserves of certain overseas subsidiary and associated undertakings being distributed as there is no present intention to distribute them.

## 23 CAPITAL AND RESERVES

| | **2000** | | | 1999 | | |
|---|---|---|---|---|---|---|
| | **Authorised** | **Issued and fully paid** | | Authorised | Issued and fully paid | |
| | **Nominal value £m** | **Number m** | **Nominal value £m** | Nominal value £m | Number m | Nominal value £m |
| US$ Cumulative Preference shares | **3** | **–** | **–** | 3 | – | – |
| Convertible Cumulative Redeemable Preference shares of 20 pence each | **60** | **227.3** | **45.4** | 60 | 227.4 | 45.4 |
| Ordinary shares of 10 pence each | **120** | **591.8** | **59.2** | 120 | 773.6 | 77.4 |
| | **183** | | **104.6** | 183 | | 122.8 |

Under the Share Savings Schemes operated by the Company employees hold options to subscribe for up to 4,833,709 (1999 – 8,047,022) Ordinary shares at prices between 179.00p and 349.46p per share exercisable by 31 October 2004.

Under the Executive Share Option Schemes operated by the Company, Directors and executives hold options to subscribe for up to 15,054,740 (1999 – 18,404,742) Ordinary shares at prices ranging between 155.25p and 475.75p per share exercisable over the period up to 19 October 2010.

Options granted pursuant to Share Savings Schemes are issued at a discount to the prevailing market price. Under the provisions of UITF 17 (Revised) no provision is required for the difference between market price and exercise price.

## 23 CAPITAL AND RESERVES CONTINUED

Options granted under the Share Savings Schemes are exercisable normally within a period of six months after the third or fifth anniversary of the SAYE contract. Options granted under the Executive Share Option Schemes are exercisable normally within a period commencing on the third anniversary and ending on the tenth anniversary of the date of grant.

| | Share capital | | | Share premium account |
|---|---|---|---|---|
| | Preference £m | Ordinary £m | Total £m | £m |
| **Share capital and share premium account** | | | | |
| Balances at 31 December 1999 | 45.4 | 77.4 | 122.8 | 8.5 |
| Purchase of Ordinary shares in the year | – | (18.2) | (18.2) | – |
| **Balances at 31 December 2000** | **45.4** | **59.2** | **104.6** | **8.5** |

On 8 June 2000, 18,154 Ordinary shares were issued by virtue of the conversion of 66,913 Preference shares; a further 55 Ordinary shares were issued during the year on the exercise of options. A total of 181,796,687 Ordinary shares, with a nominal value of £18.2m, were purchased during the year for a total consideration of £304.3m. This represents 23.5% of the shares in issue at 1 January 2000. The reason for the purchases was to provide an enhancement in earnings per share in future years without harming the ability of the Group to expand its core activities.

Non-equity shareholders' funds relate entirely to the Convertible Cumulative Redeemable Preference shares ("Preference shares"). These shares carry an entitlement to a dividend at the rate of 8.25p (net) per share per annum. They are convertible in any of the years up to 2003 into Ordinary shares of 10p each at a rate equivalent to 27.132 Ordinary shares for every 100 Preference shares and may be redeemed at £1 per share at any time after 30 June 2003 at the option of the Company and, in any event, will be redeemed at £1 per share on 31 July 2007. Holders of the Preference shares have one vote for every five shares held but only on a resolution for the winding-up of the Company or on a resolution affecting the rights attached to the shares or if the Preference dividend has remained unpaid for six months. Holders of Preference shares have the right on a winding-up to receive in priority to any other class of shares the sum of £1 per share together with any arrears of dividend.

| | £m |
|---|---|
| **Capital redemption reserve** | |
| Balances at 31 December 1999 | 6.6 |
| Provided on purchase of Ordinary share capital | 18.2 |
| **Balances at 31 December 2000** | **24.8** |

| **Other reserves** | Company and its subsidiaries: Preference redemption £m | Company and its subsidiaries: Other £m | Associated under-takings £m | Group £m |
|---|---|---|---|---|
| **Group** | | | | |
| Balances at 31 December 1999 | 7.0 | 1,040.6 | (1.7) | 1,045.9 |
| Currency translation adjustments | – | (23.0) | – | (23.0) |
| Deficit on profit and loss account for the year | – | (410.5) | – | (410.5) |
| Purchase of Ordinary share capital | – | (304.3) | – | (304.3) |
| Provision for redemption premium | 2.2 | – | – | 2.2 |
| Realisation of goodwill on disposals | – | 108.1 | – | 108.1 |
| **Balances at 31 December 2000** | **9.2** | **410.9** | **(1.7)** | **418.4** |

Of the £23.0m loss on other net currency translation adjustments, a loss of £75.9m arises from the translation of foreign currency borrowings less deposits. The total cumulative goodwill eliminated against reserves at 31 December 2000 amounted to £1,011.3m (1999 – £1,070.5m).

| **Other reserves** | Preference redemption £m | Other £m | Total £m |
|---|---|---|---|
| **Company** | | | |
| Balances at 31 December 1999 | 7.0 | 2,289.5 | 2,296.5 |
| Deficit on profit and loss account for the year | – | (777.4) | (777.4) |
| Purchase of Ordinary share capital | – | (304.3) | (304.3) |
| Provision for redemption premium | 2.2 | – | 2.2 |
| **Balances at 31 December 2000** | **9.2** | **1,207.8** | **1,217.0** |

## 24 ANALYSIS OF MINORITY INTERESTS

| | Equity total £m |
|---|---|
| Balances at 31 December 1999 | 13.6 |
| Currency translation adjustments | 1.0 |
| Minority interest in the profit on ordinary activities after tax | 3.0 |
| Distributions to minority interests | (1.7) |
| **Balances at 31 December 2000** | **15.9** |

## 25 RECONCILIATION OF OPERATING PROFIT TO OPERATING CASH FLOWS

| | **2000 £m** | 1999 £m |
|---|---|---|
| Operating profit | **219.3** | 208.6 |
| Exceptional charges | **43.5** | 98.4 |
| Cash payments in respect of exceptional charges | **(19.6)** | (22.5) |
| Depreciation | **134.0** | 139.4 |
| Decrease (increase) in stocks | **24.7** | (19.0) |
| Decrease (increase) in debtors | **55.7** | (80.5) |
| (Decrease) increase in creditors | **(74.0)** | 4.1 |
| Other items | **(25.6)** | (12.7) |
| Net cash inflow from operating activities | **358.0** | 315.8 |

## 26 PURCHASE OF SUBSIDIARIES

| | **2000 £m** | 1999 £m |
|---|---|---|
| Tangible fixed assets | **19.9** | 16.1 |
| Net current (liabilities) excluding cash | **(0.8)** | (5.1) |
| Net assets | **19.1** | 11.0 |
| Goodwill (note 9) | **6.6** | 1.7 |
| | **25.7** | 12.7 |
| Satisfied by: | | |
| Cash paid | **25.9** | 10.6 |
| Less: cash acquired with subsidiaries | **(0.2)** | – |
| Cash outflow on purchase of subsidiaries | **25.7** | 10.6 |
| Borrowings acquired | **–** | 2.1 |
| Consideration | **25.7** | 12.7 |

There were no material differences between the book values of assets and liabilities in the acquired entities' books immediately before acquisition and the fair values in the table above. In addition, no changes were necessary as a result of aligning accounting policies.

On 8 February 2000, the Group acquired a DVD authoring and replication facility from Pioneer Video Manufacturing, Inc. for a consideration of £11.9m.

On 3 May 2000, the entire share capital of Zealcastle Limited was purchased for a consideration of £13.8m. The principal activity of the company is the operation of the Park Tower Casino. Additional consideration of up to £1.8m may be payable depending upon the trading performance of the casino during the first year of ownership.

## 27 SALE OF BUSINESSES AND INVESTMENTS

| | 2000 | | | |
|---|---|---|---|---|
| | **Businesses £m** | **Associated undertakings £m** | **Total £m** | 1999 £m |
| Net assets disposed of: | | | | |
| Tangible fixed assets | **1,132.3** | **–** | **1,132.3** | 127.8 |
| Interests in associated undertakings | **–** | **356.9** | **356.9** | – |
| Stocks | **2.9** | **–** | **2.9** | 1.0 |
| Debtors | **14.6** | **–** | **14.6** | 212.0 |
| Creditors | **(34.2)** | **–** | **(34.2)** | (15.3) |
| | **1,115.6** | **356.9** | **1,472.5** | 325.5 |
| Goodwill capitalised on balance sheet | **2.6** | **–** | **2.6** | – |
| Goodwill previously eliminated against reserves | **91.2** | **16.9** | **108.1** | 6.0 |
| Profits less losses on disposal before tax (net) | **(251.1)** | **(195.7)** | **(446.8)** | 37.0 |
| Sales consideration | **958.3** | **178.1** | **1,136.4** | 368.5 |
| Consisting of: | | | | |
| Sales proceeds less related costs | **1,039.8** | **179.5** | **1,219.3** | 378.1 |
| Cash and overdrafts disposed of with subsidiaries | **(6.4)** | **–** | **(6.4)** | (3.2) |
| Cash inflow from sale of businesses and investments | **1,033.4** | **179.5** | **1,212.9** | 374.9 |
| Other related costs | **(75.1)** | **(1.4)** | **(76.5)** | (10.2) |
| Deferred consideration receivable | **–** | **–** | **–** | 3.8 |
| | **958.3** | **178.1** | **1,136.4** | 368.5 |

Businesses and associated undertakings sold in the year comprised Odeon Cinemas, Pinewood Studios, Universal Studios Escape, Tom Cobleigh and UK Holidays. Profits/losses on disposal of individual businesses and associated undertakings are disclosed on page 16.

## 28 RECONCILIATION TO NET DEBT

| | **2000 £m** | 1999 £m |
|---|---|---|
| Increase in cash in the year | **72.4** | 7.6 |
| Decrease (increase) in debt and lease financing | **848.6** | (78.4) |
| Movement in liquid resources (a) | **(1.1)** | (3.3) |
| Decrease (increase) in net debt from cash flows | **919.9** | (74.1) |
| Loan and finance leases acquired with subsidiary | **–** | (2.0) |
| New finance leases | **(2.0)** | (9.8) |
| Currency translation adjustments | **(75.9)** | (18.8) |
| Decrease (increase) in net debt in year | **842.0** | (104.7) |
| Net debt at 1 January | **(1,161.9)** | (1,057.2) |
| Net debt at 31 December | **(319.9)** | (1,161.9) |
| Cash, deposits and current asset investments (note 17) | **167.7** | 107.0 |
| Loan capital and borrowings (note 18) | **(487.6)** | (1,268.9) |
| Net debt at 31 December | **(319.9)** | (1,161.9) |

(a) The movement in liquid resources consisted of purchases of deposits and investments of £14.7m (1999 – £6.0m) and sales of £15.8m (1999 – £9.3m).

## 29 ANALYSIS OF NET DEBT

| | 31 December 1999 £m | Cash flow £m | Other non-cash changes £m | Currency translation adjustments £m | **31 December 2000 £m** |
|---|---|---|---|---|---|
| Cash in hand, at bank | 94.2 | 61.1 | – | 0.7 | **156.0** |
| Overdrafts | (20.6) | 11.3 | – | | **(9.3)** |
| | | 72.4 | | | **146.7** |
| Debt due after one year | (1,122.6) | 751.3 | – | (72.8) | **(444.1)** |
| Debt due within one year | (106.0) | 77.9 | – | (4.1) | **(32.2)** |
| Finance leases | (19.7) | 19.4 | (2.0) | 0.3 | **(2.0)** |
| | | 848.6 | | | **(478.3)** |
| Liquid resources | 12.8 | (1.1) | – | – | **11.7** |
| Total | (1,161.9) | 919.9 | (2.0) | (75.9) | **(319.9)** |

Liquid resources comprise current asset investments which, as described in note 17, represent amounts readily convertible into cash.

## 30 DIRECTORS

**(a) Directors' interests**

The Directors' interests in shares or stocks of the Company, including options to purchase Ordinary shares under the terms of the Group's executive share option schemes, long term incentive plans and share savings schemes, are detailed in the Remuneration Report.

Details of options to subscribe for Ordinary shares of the Company granted to and exercised by Directors, or which lapsed, in the year ended 31 December 2000 are also detailed in the Remuneration Report.

| **(b) Total emoluments of the Directors of The Rank Group Plc** | **2000 £000** | 1999 £000 |
|---|---|---|
| Fees | **157** | 158 |
| Base salaries, allowances and taxable benefits | **1,300** | 1,334 |
| Bonuses | **878** | 399 |
| Salary supplements | **48** | 166 |
| Aggregate emoluments | **2,383** | 2,057 |
| Pension contributions – defined contributions | **283** | – |
| Compensation for loss of office – Nigel Turnbull (including cost of pension enhancement – £156,100) | **–** | 571 |
| Compensation for loss of office – Douglas Yates | **–** | 451 |
| Total emoluments | **2,666** | 3,079 |
| (c) Emoluments of Chairman | **288** | 290 |
| (d) Emoluments of highest paid Director* | **1,104** | 650 |

(e) Company policy on the remuneration of Directors and details of the remuneration of each Director are set out in the Remuneration Report on pages 20 to 23.

*Including Company contributions to defined contribution pension arrangements.

## 31 EMPLOYEES

| Employee costs | 2000 £m | 1999 £m |
|---|---|---|
| Wages and salaries | **387.2** | 479.9 |
| Social security costs | **33.8** | 37.6 |
| Other pension costs | **12.8** | 10.6 |
| | **433.8** | 528.1 |

| Average number of employees by geographical area | 2000 | 1999 |
|---|---|---|
| United Kingdom | **10,574** | 10,882 |
| North America | **8,778** | 9,044 |
| Rest of the World | **1,789** | 2,259 |
| Continuing operations | **21,141** | 22,185 |
| Discontinued operations | **15,916** | 20,896 |
| Average in year | **37,057** | 43,081 |

**Provision for pension and similar obligations**

**United Kingdom** The Group has two pension schemes for UK employees, both of which are contracted out of the State Earnings Related Pension arrangements. The schemes are externally funded under separate trusts and the funds' assets are held separately from Group assets. The accounts of both schemes for the year ended 5 April 2000 have been reported upon by their auditors without qualification.

The Rank Pension Plan is a defined benefit scheme with pensions fixed by reference to final pay and length of service. The market value of the funds' assets at 5 April 2000 was £629.7m (1999 – £542.6m) excluding the value of annuities purchased to match pensions in payment.

Formal actuarial valuations of the Plan are carried out triennially by an independent actuary, William M. Mercer Ltd, using the Projected Unit Method. The most recent valuation has an effective date of 5 April 1999 and has been used to determine the pension charge for the year to 31 December 2000. The main actuarial assumptions adopted were that the rate of return on investments will be 5.75% per annum, the rate of increase of pensionable remuneration will be 4.0% per annum, the rate of discretionary pension increases will be nil, and for pensions in payment entitled to increases in line with price inflation subject to a maximum of 5% per annum, the assumption is 2.75% per annum. Assets were taken at their market value. The value of the assets was sufficient to cover 114% of the accrued benefits allowing for expected future increases in earnings.

The pension charge for the year to 31 December 2000 was £7.9m (1999 – £5.7m). The charge was determined after spreading the expensing surplus of £57.0m over the average remaining service lives of the active members of the Plan.

At 31 December 2000 there was a prepayment in debtors of £9.6m (1999 – £12.1m) resulting from the difference between pension costs charged in the accounts and the amounts funded to date.

The Rank Money Purchase Pension Scheme is a defined contribution scheme with benefits which depend on the contribution levels and the emerging investment performance. The market value of its assets at 5 April 2000 was £33.5m (1999 – £29.8m). Group contributions to this scheme in the year to 31 December 2000 totalled £0.8m (1999 – £1.1m).

**USA** The Group operates defined contribution schemes in the USA. Group contributions to these schemes totalled £3.0m (1999 – £3.1m).

**Other countries** Group contributions to schemes for employees in other countries totalled £Nil (1999 – £Nil).

## 32 CONTINGENT LIABILITIES

| | 2000 £m | 1999 £m |
|---|---|---|
| **Group** | | |
| Guarantees by the Company and by subsidiary undertakings, and uncalled liability in respect of partly paid shares | **42.5** | 32.9 |

The Group is involved in a dispute with Serena Holdings Limited over the purchase consideration of an acquisition which has been referred to an expert for determination. The dispute centres upon the parties' contentions in relation to the accounts and the profits of the businesses based upon which an additional purchase consideration may be payable. The Directors are strongly resisting the payment of any further sum. At the present time the outcome to the Group cannot be determined and the potential liability cannot be quantified. However, it is the opinion of the Directors that it is unlikely that the outcome of this dispute will have a material effect on the Group's financial position.

Subsidiary undertakings are involved in class action suits in the USA. These actions are being vigorously contested and the Directors believe that none of these actions will result in a material adverse effect on the financial condition of the Group. Additional information required to be disclosed by FRS 12, "Provisions, Contingent Liabilities and Contingent Assets", is not disclosed on the grounds that it can be expected to prejudice the outcome of these matters.

| | 2000 £m | 1999 £m |
|---|---|---|
| **Company** | | |
| Guarantees of advances to subsidiary undertakings and uncalled liabilities in respect of partly paid shares | **908.8** | 1,660.4 |

No security has been given in respect of any contingent liability.

## 33 COMMITMENTS

**Future capital expenditure** At 31 December 2000 commitments for capital expenditure amounted to £17.7m (1999 – £47.4m) for the Group and £Nil (1999 – £Nil) for the Company.

**Group operating lease commitments** At 31 December 2000 commitments to make payments under operating leases in the following 12 months was:

| | Land and buildings | | Plant and machinery | |
|---|---|---|---|---|
| | **2000 £m** | 1999 £m | **2000 £m** | 1999 £m |
| Leases expiring in one year | **3.4** | 1.9 | **0.1** | 0.4 |
| Leases expiring in two to five years | **16.8** | 17.3 | **1.7** | 1.9 |
| Leases expiring in more than five years | **29.9** | 36.4 | **0.2** | – |
| | **50.1** | 55.6 | **2.0** | 2.3 |

**Advance payments under supply contracts**

At 31 December 2000, the Group had commitments to make advance payments in future years under film processing and video duplication contracts of £44.9m (1999 – £49.0m).

## 34 RELATED PARTY TRANSACTIONS

During the year the Group traded with its joint venture investment, BL Rank Properties Ltd ("BLRP"). £12.4m of rental payments to BLRP were made in the year.

The Group recharges the Rank Group UK Pension Schemes with the costs of administration and independent pension advisers borne by the Group. The total amount recharged in the year ended 31 December 2000 was £1.8m (1999 – £1.7m).

# PRINCIPAL SUBSIDIARY UNDERTAKINGS

The Rank Group Plc owns directly or indirectly 100% of the ordinary share capital and voting rights of the following companies. The companies are incorporated in Great Britain unless otherwise indicated after the company name. The principal operations are carried out in the country of registration.

| | |
|---|---|
| **Gaming** | |
| Grosvenor Casinos Limited | London and provincial casinos |
| Mecca Bingo Limited | Social and bingo clubs |
| Rank Leisure Machine Services Limited | Amusement machine hire and sales |
| **Hard Rock** | |
| Hard Rock Cafe International (USA) Inc. (USA) | Operates and franchises Hard Rock Cafes worldwide |
| **Deluxe** | **Principal activities** |
| Deluxe Laboratories Limited | Film processing laboratory |
| Deluxe Laboratories Inc. (USA) | Film processing laboratory |
| Deluxe Toronto Limited (Canada) | Film processing laboratory |
| Deluxe Video Services Inc. (USA) | Video duplication and distribution |
| Deluxe Video Services GmbH (Germany) | Video duplication and distribution |
| Deluxe Video Services, S.L. (Spain) | Video duplication and distribution |
| Deluxe Video Services Limited | Video duplication and distribution |
| Deluxe Video Services S.A. (France) | Video duplication and distribution |
| Deluxe Video Services S.A. (Portugal) | Video duplication and distribution |
| Deluxe Video Services Scandinavia AB (Sweden) | Video duplication and distribution |
| Deluxe Benelux BV (Netherlands) | Video duplication and distribution |
| **US Holidays** | |
| Resorts USA Inc. (USA) | Outdoor World holiday memberships at caravan park resorts, the sale of timeshares, second homes and land |
| **Holding & Other Companies** | |
| Rank America Inc. (USA) | Owns the Group's investments in the USA |
| Rank Group Finance Plc* | Funding operations for the Group |
| Rank Holding España S.A. (Spain) | Owns the Group's investments in Spain |
| Rank Holdings (France) S.A. (France) | Owns the Group's investments in France |
| Rank Holdings (Germany) GmbH (Germany) | Owns the Group's investments in Germany |
| Rank Holdings (Netherlands) BV (Netherlands) | Owns the Group's non-US overseas subsidiary undertakings |
| Rank Hotels Orlando Inc. (USA) | Owns the Group's investment in Universal Rank Hotel Partners |
| Rank Leisure Holdings Plc* | Owns the Group's investments in the UK operating subsidiary undertakings, Rank Overseas Holdings Limited and BL Rank Properties Ltd |
| Rank Overseas Holdings Limited | Owns the Group's investment in Rank Holdings (Netherlands) BV and Rank America Inc. |

A full list of subsidiary undertakings will be included with the Company's Annual Return.

*Directly held by the Company.

# PRINCIPAL ASSOCIATED UNDERTAKINGS

### Universal Studios Escape

In the segmental analysis set out on pages 35 and 36, the Group's interests in Universal City Florida Partners and Universal City Development Partners prior to their disposal on 28 July 2000 are referred to as Universal Studios Escape. The two partnerships were 50% owned between the Group and Universal Studios, Inc., a subsidiary of Vivendi Universal SA.

The Group's interest in Universal Rank Hotel Partners ("URHP") is referred to below as Hotels. It is 50% owned by the Group and Universal Studios, Inc. URHP holds a 50% interest in Universal City Florida Venture, the other 50% being owned by Loews Corporation. This was classified as an investment from 30 June 2000.

| | 2000 | | | |
|---|---|---|---|---|
| | **Universal Studios Escape £m** | **Hotels £m** | **Total £m** | 1999 £m |
| **Profit and loss account** (Group share) | | | | |
| Turnover | **136.4** | **5.5** | **141.9** | 191.1 |
| Operating profit | **11.4** | **0.7** | **12.1** | 21.5 |
| Net interest payable | **(22.9)** | **(0.7)** | **(23.6)** | (23.9) |
| Exceptional items | **(0.7)** | **(13.1)** | **(13.8)** | (45.7) |
| Loss before tax | **(12.2)** | **(13.1)** | **(25.3)** | (48.1) |

# FIVE YEAR REVIEW

## YEAR ENDED 31 DECEMBER

| | 2000 £m | 1999 £m | 1998 £m | 1997 £m | 1996 £m |
|---|---|---|---|---|---|
| **Turnover** | | | | | |
| Current operations | **1,404** | 1,330 | 1,334 | 1,301 | 1,390 |
| Former operations | **389** | 711 | 723 | 711 | 694 |
| | **1,793** | 2,041 | 2,057 | 2,012 | 2,084 |
| **Operating profit before exceptional items** | | | | | |
| Current operations | **203** | 196 | 178 | 183 | 191 |
| Former operations | **60** | 111 | 96 | 119 | 95 |
| | **263** | 307 | 274 | 302 | 286 |
| Exceptional items charged against operating profit | **(44)** | (98) | (99) | (9) | (177) |
| Non-operating items (including share of associates) | **(450)** | 32 | (207) | (43) | (62) |
| Universal Studios Escape before exceptional items | **(11)** | (2) | 22 | 20 | 14 |
| Universal Studios Escape exceptional items | **(1)** | (46) | (24) | (9) | (2) |
| Other associates and joint ventures | **(11)** | 2 | 1 | – | – |
| Dividends receivable from Rank Xerox | **–** | – | – | 20 | 49 |
| Interest (net) | **(87)** | (87) | (50) | (48) | (50) |
| **(Loss) profit before tax** | **(341)** | 108 | (83) | 233 | 58 |
| Tax | **24** | (38) | (55) | (60) | (94) |
| Minority interests | **(3)** | (2) | (3) | (3) | (3) |
| Preference dividends and appropriations | **(21)** | (21) | (21) | (20) | (21) |
| **(Loss) earnings** | **(341)** | 47 | (162) | 150 | (60) |
| **(Loss) earnings per Ordinary share** | **(49.1)p** | 6.1p | (21.2)p | 18.4p | (7.4)p |
| **Earnings per Ordinary share before exceptional items** | **17.3p** | 19.9p | 22.0p | 25.6p | 21.6p |
| **Total Dividend per Ordinary share** | **12.0p** | 12.0p | 18.5p | 18.0p | 17.0p |

## YEAR ENDED 31 DECEMBER

| | 2000 £m | 1999 £m | 1998 £m | 1997 £m | 1996 £m |
|---|---|---|---|---|---|
| **Group funds employed** | | | | | |
| Fixed assets | **780** | 1,938 | 1,872 | 1,863 | 1,574 |
| Investments | **56** | 390 | 348 | 239 | 1,120 |
| Other assets (net) | **55** | 32 | 78 | 398 | 18 |
| **Total funds employed at year end** | **891** | 2,360 | 2,298 | 2,500 | 2,712 |
| **Financed by** | | | | | |
| Ordinary share capital and reserves | **333** | 964 | 1,011 | 1,245 | 1,542 |
| Preference share capital including premium | **222** | 220 | 218 | 216 | 214 |
| Minority interests | **16** | 14 | 12 | 27 | 26 |
| | **571** | 1,198 | 1,241 | 1,488 | 1,782 |
| Net debt | **320** | 1,162 | 1,057 | 1,012 | 930 |
| | **891** | 2,360 | 2,298 | 2,500 | 2,712 |
| **Average number of employees (000's)** | **37.1** | 43.1 | 45.6 | 43.7 | 43.5 |

# SHAREHOLDER INFORMATION

**Ordinary shares**

The total number of Ordinary shares in issue as at 31 December 2000 was 591,832,652 shares which were held by a total of 33,086 shareholders.

**Convertible Preference shares**

The total number of Convertible Preference shares in issue as at 31 December 2000 was 227,316,264 shares which were held by a total of 15,847 shareholders.

**American Depositary Receipts (ADRs)**

The Company's Ordinary shares are traded on NASDAQ in the form of American Depositary Shares, evidenced by ADRs and traded under the symbol "RANKY". Each American Depositary Share represents two Ordinary shares. The total number of American Depositary Shares in issue as at 31 December 2000 was 2,720,075 (representing 5,440,150 Ordinary shares) which were held by a total of 2,878 ADR holders.

Morgan Guaranty Trust Company of New York is the depositary bank. All enquiries regarding ADR holder accounts and payment of dividends should be directed to Morgan Guaranty Trust Company of New York, Morgan ADR Service Center, PO Box 842006, Boston, Massachusetts 02284-2006 USA (Tel: 1-800-428-4237 (toll-free in the USA) or +1-781-575-4328 (from outside the USA)).

**Share price information**

The latest information on the Rank Ordinary share price is available on Ceefax and on the Financial Times Cityline Service: Tel: 0336 433771 (calls charged at 60p per minute).

**Capital gains tax**

For the purpose of calculating UK capital gains tax on a disposal of Ordinary shares in the Company (including shares held in the predecessor company, The Rank Organisation Plc) held since 31 March 1982, the price of the Company's shares at that date was 190p per share. This price should be adjusted for the effects of the rights issue in January 1990, the enhanced share alternative in November 1993, the sub-division and consolidation of shares in March 1994 and the enhanced scrip dividend in March 1998.

**Share dealing service**

Hoare Govett Limited has established a low-cost share dealing service which enables investors to buy or sell certificated shareholdings in the Company in a simple, economic manner. Basic commission is 1%, with a minimum charge of £10. Transactions are executed and settled by Pershing Securities Limited. Forms can be obtained from Hoare Govett, 25 Bishopsgate, London EC2M 4AA (Tel: 020 7678 8300).

**Shareholders' concession**

A leaflet detailing the concessions available to private shareholders in 2001 is enclosed with this Annual Report. The concessions are available to Convertible Preference shareholders as well as Ordinary shareholders. Further copies are available from the Secretary.

**Form 20-F**

The Company is subject to the regulations of the Securities and Exchange Commission ("SEC") in the USA as they apply to foreign companies. The Company will file its annual report on Form 20-F with the SEC. Copies of the Directors' Report and Accounts and Form 20-F can be obtained in the USA by contacting Morgan Guaranty Trust Company of New York at the address quoted above.

**Registrar**

All enquiries relating to Ordinary and Convertible Preference shareholders, dividends and changes of address should be addressed to the Company's Registrar, (quoting reference number 1235), Lloyds TSB Registrars, The Causeway, Worthing, West Sussex BN99 6DA (Tel: 0870 600 3953).

**www.shareview.co.uk**

The new Shareview Portfolio service from our Registrar gives you more control of your Rank shares and other investments including:

- direct access to data held for you on the share register including recent share movements and dividend details;
- a recent valuation of your portfolio;
- a range of information and practical help for shareholders.

It is easy and free to set up a portfolio – you just need the shareholder reference printed on your proxy form or dividend stationery. Visit the website for more details: www.shareview.co.uk

**Payment of dividends**

Shareholders whose dividends are not currently paid to mandated accounts may wish to consider this method of payment, which has a number of advantages: dividends are paid direct into the shareholder's nominated account, cleared funds are provided on the payment date, and the relevant tax voucher is sent to the shareholder's registered address.

If you would like future dividends paid in this way, please contact the Registrar for a dividend mandate form. A mandate form will also be attached to the warrant for the next dividend.

**For further information please contact:**

Charles Cormick, Company Secretary
Kate Ellis-Jones, Investor Relations
The Rank Group Plc
6 Connaught Place
London W2 2EZ
www.rank.com
020 7706 1111

# SUMMARY NOTICE OF ANNUAL GENERAL MEETING

### Summary of business to be transacted at the 2001 Annual General Meeting

The full text of the Notice of the meeting, together with explanatory notes, is set out in a separate document which is enclosed with this Report and Accounts.

The Annual General Meeting of the Company will be held at the Royal Garden Hotel, 2-24 Kensington High Street, London W8 4PT at 11.30am on Thursday 26 April 2001.

### Business to be transacted at the Annual General Meeting

1 To receive the Report and Accounts for the year ended 31 December 2000.

2 To declare a final dividend.

3 To re-elect Peter Jarvis as a Director.

4 To re-appoint PricewaterhouseCoopers as auditors and to authorise the Directors to agree their fee.

5 To authorise the Directors to allot Ordinary shares.

6 To disapply pre-emption rights.

7 To authorise the Company to make market purchases of its Ordinary shares.

8 To authorise the Company to make market purchases of its Convertible Preference shares.

9 To authorise the Directors to declare scrip dividends.

Proxy forms for use in connection with the business to be transacted at the Annual General Meeting are enclosed with this Report and Accounts.

# 2001 FINANCIAL CALENDAR

| | |
|---|---|
| **31 January** | Dividend payment on Convertible Preference shares |
| **26 April** | Annual General Meeting |
| **4 May** | Final dividend payment on Ordinary shares |
| **31 July** | Dividend payment on Convertible Preference shares |
| **7 September** | Interim results announcement |
| **12 October** | Interim dividend payment on Ordinary shares |

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